

HC
240
.A1
E19
v.10
no.1

UNITED



NATIONS

PERIODICAL
READING ROOM

UNIVERSITY
OF MICHIGAN

JUL 16 1958

MATH. ECON.
LIBRARY

ECONOMIC BULLETIN^S
FOR
EUROPE

TABLE OF CONTENTS

	Page
CURRENT ECONOMIC DEVELOPMENTS IN EUROPE	1
THE INTERNATIONAL IMPACT OF THE UNITED STATES RECESSION	41
CORRIGENDA TO THE " <i>Economic Survey of Europe in 1957</i> "	60

Vol. 10, No. 1

Geneva, 1958

UNIVERSITY OF MICHIGAN
GENERAL LIBRARY

The ECONOMIC BULLETIN FOR EUROPE is published three times a year, in May, August and November, and is intended to provide a regular review of the economic situation of Europe in the intervals between the publication of the annual *Economic Survey of Europe*.

The *Bulletin* is published entirely on the responsibility of the secretariat of the Economic Commission for Europe, and its contents, which are intended for the use both of Governments and of the general public, have not been submitted to the Member Governments of the Commission before publication.

EXPLANATORY NOTES

The following symbols have been used throughout this *Bulletin* :

- .. = not available or not pertinent.
- = nil or negligible.
- * = estimate by the secretariat of the Economic Commission for Europe.
- = revised figure.

In referring to combinations of years, the use of an oblique stroke—*e.g.*, 1956/57—signifies a 12-month period (say from 1 July 1956 to 30 June 1957). The use of a hyphen—*e.g.*, 1956-1957—signifies an average of the full period of calendar years covered (including the end years indicated).

Unless otherwise indicated, the standard unit of weight used throughout is the metric ton. The definition of "billion" used throughout is one thousand millions. Minor discrepancies in totals and percentages are due to rounding.

In general, information received up to 21 May 1958 has been included in the *Bulletin*.

Price of Vol. 10, No. 1, of the *Economic Bulletin for Europe* : \$(U.S.) 0.50, 3/9 stg. or 2.00 Swiss francs
Annual subscription, including the annual *Economic Survey* \$(U.S.) 3.00 ; 22/6 stg. ; 12 Swiss francs.

Available against local currencies from all sales agents for United Nations publications (see list on back cover). Standing orders can be placed with all sales agents and with:

Sales Section, European Office of the United Nations
GENEVA, Switzerland

or

Sales & Circulation Section, United Nations
NEW YORK, U.S.A.

for payment in Swiss francs and dollars respectively.

ECONOMIC BULLETIN FOR EUROPE

Prepared by the

Research and Planning Division

ECONOMIC COMMISSION FOR EUROPE

Vol. 10, No. 1 May 1958



UNITED NATIONS

CURRENT ECONOMIC DEVELOPMENTS IN EUROPE

1. INDUSTRIAL PRODUCTION IN WESTERN EUROPE

Marked differences among countries, as well as among sectors within countries, have been a feature of the recent development of industrial production in western Europe, and no clearly defined general tendency appears as yet to have emerged.

In recent months, industrial output has tended to stagnate or even to decline in the group of industrial countries where the rate of expansion had already begun to slow down last year as a result of restrictive monetary policies — intended to contain inflationary pressures or overcome balance-of-payments difficulties, or both — which were generally reinforced in the course of 1957. In the United Kingdom, the very moderate revival of industrial production in the summer of 1957 soon came to a halt, and the level of output in the first quarter of 1958 was no higher than that of a year earlier. In the Netherlands, the effects of an anti-inflationary programme adopted in the spring of 1957 began to make themselves felt around the middle of that year. In Denmark and Ireland, a downward trend was discernible throughout 1957 — though in the latter country there was some recovery towards the close of the year — and in Finland an abrupt downturn started in the second quarter.

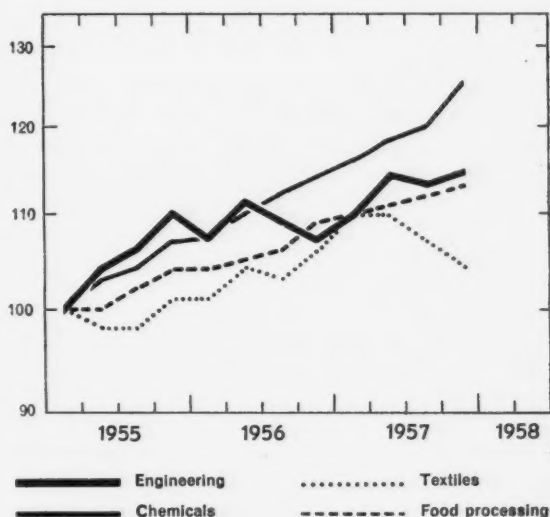
The tendency towards a levelling-off of the growth of output is also evident in some countries which did not introduce or reinforce restrictive measures during 1957, but where more spontaneous demand factors — in particular weakening export demand — have placed a check on expansion (see Table 1). The outstanding example is Belgium, affected by the slackening export demand for steel and some engineering products, where output has been declining since the autumn. In Sweden, the rate of industrial expansion of the first half of 1957 was not maintained during the second half of the year, and output in the first three months

of 1958 was only about 2 per cent above that of the same period of 1957. While over-all production in Norway was particularly depressed in the winter months by the low level of activity in the canning and oils-and-fats industries, following a poor fish catch, few industrial sectors, whether producing for

CHART 1

Industrial production by branches of industry in western Europe^a

Index numbers—First quarter 1955=100
Adjusted for seasonal variations
Semi-logarithmic scale



Sources: National statistics and OEEC Statistical Bulletin.
^a OEEC member countries combined.

TABLE 1
Industrial production in western Europe
Index numbers (1953 = 100)

Country	1955	1956	1957	1957				1958 First quarter	
				First qtr.	Second qtr.	Third qtr.	Fourth qtr.	First qtr. 1953=100	First qtr. 1957=100
<i>Total industrial production</i>									
Austria	133	138	146	144	146	146	148	155	107
Belgium	116	122	122 ^a	127	125	117 ^a	120	119	94
Denmark	114	113	118	121	120	117	115	120	99
Finland	128	131 ^a	135	144	134	137	124	132	92
France	117	129	140	142	143	144	153	156	110
Western Germany	129	139	147	147	148	146	146	150	102
Italy	119	128	138	136	137	139	138	138	101
Netherlands	118	124	126	130	127	126	121	124 ^b	95 ^b
Norway	117	122	126	123	128	128	126	120	98
Sweden	111	114	119	118	120	120	118	121	102
United Kingdom	114	113	116	113	116	116	116	113	100
Yugoslavia	132	146	171	164	167	171	179	183 ^b	116 ^b
Total of countries listed	120	126	133	132	134	133	134	136	103
Total OEEC countries :									
<i>Metal-using industries</i>	127	133	138	134	139	138	139	145 ^b	101 ^b
<i>Textile industries</i>	106	109	114	117	117	113	110	113 ^b	97 ^b
<i>Chemical industries</i>	125	134	145	140	143	145	151	..	..
<i>Food-processing industries</i>	110	115	120	119	120	121	122	124 ^c	102 ^c

Sources : OEEC Statistical Bulletin, March 1958, and national statistics.

^a Figures affected by strikes.

^b January-February.

^c January.

export or for the home market, are still expanding significantly.

In other countries of western Europe signs of some slackening have begun to appear. In western Germany, the rate of growth, which had been slowing down for two successive years, declined further in the first quarter, and industrial output was only some 2 per cent higher than in the corresponding period of 1957. Moreover, the flow of incoming orders, especially for export, markedly slackened, and in some branches scarcely matched the current rate of output. Industrial output in Italy continued to rise in the first quarter of 1958, though more slowly than in the past, but steel production failed to exceed the level of a year earlier, for the first time since the war. The Austrian economy continued to expand rapidly on the strength of high investment demand, but an inquiry carried out in January suggests that industrial order books were less satisfactory for consumer goods and that exports of basic materials (constituting 45 per cent

of total Austrian exports) were becoming increasingly sensitive to changes in world market conditions.¹ On the other hand, it would appear that the measures taken to check the pressure of domestic demand in France have so far had only a very limited impact on industrial output and that the high level of stocks of basic materials at the close of the year has so far allowed a continued high rate of growth despite the restriction of imports. Output in Yugoslavia was some 16 per cent higher in the first quarter than a year earlier.

Whereas a stagnation of demand and output gives rise to concern in some sectors, others continue to register further progress.² The building industry is

¹ See *Monatsberichte des Österreichischen Institutes für Wirtschaftsforschung*, No. 2, 1958.

² However, in the absence of more up-to-date detailed production indices, it is difficult to identify either the direction of the movement of industrial production in different branches of industry or the importance of those branches in the total rate of expansion of industrial activity.

TABLE 2
Production in metal-using, textiles and building materials industries

Index numbers; corresponding period of previous year = 100

	Country	1956	1957	1957				1958
				First quarter	Second quarter	Third quarter	Fourth quarter	January/February
Austria	Metal-using	100	101	89	103	104	111	122
	Textiles	105	104	106	105	108	98	98
	Building materials	106	107	128	110	99	100	83
Belgium	Metal-using	107	100	111	99	93	99	95
	Textiles	106	103	110	114	98	87	80
	Building materials	107	98	111	96	94	94	92
Denmark	Metal-using	97	103	106	107	101	100	98 ^b
	Textiles	99	114	130	131	107	94	89 ^b
	Building materials	95	99	109	101	94	96	85 ^b
Finland	Metal-using	103	101	128	95	96	89	89 ^b
	Textiles	108	98	137	97	85	80	75 ^b
	Building materials	100	98	134	100	94	78	72 ^b
France	Metal-using	118	103	108	105	106	114	117
	Textiles	108	109	118	113	105	100	102 ^b
	Building materials	109	112	119	112	111	106	106 ^b
Western Germany	Metal-using	109	104	105	104	102	106	106 ^b
	Textiles	106	104	110	104	102	102	96 ^b
	Building materials	128	100	123	96	92	98	80 ^b
Italy	Metal-using	109	109	112	107	107	109	104 ^b
	Textiles	105	110	117	115	111	99	94 ^b
	Building materials	108	107	113	103	104	109	109 ^b
Netherlands	Metal-using	106	96	102	97	99	88	93 ^b
	Textiles	103	100	102	101	100	96	92 ^b
	Building materials	104	106	114	106	104	103	94 ^b
Norway	Metal-using	102	101	104	98	103	98	99 ^b
	Textiles	106	105	116	104	108	92	83 ^b
	Building materials	103	102	109	98	106	98	99 ^b
Sweden	Metal-using	103	103	103	104	104	98	99 ^b
	Textiles	101	103	106	107	106	100	..
United Kingdom	Metal-using	97	102	97	103	105	105	102
	Textiles	99	99	102	98	100	96	91
	Building materials	99	97	98	95	96	99	98 ^a
Total of countries listed	Metal-using	105	103	103	104	104	106	105
	Textiles	104	104	110	105	103	98	94
	Building materials	112	102	113	99	97	100	92

Sources: National statistics.

^a January.

^b January-March.

not covered by the data shown in Chart 1 and the conditions in that sector are examined below. Among other major sectors, the weakening of demand has been fairly generally reflected in basic materials and textiles, whereas developments in the metal-using industries have varied a great deal from country to

country and industry to industry (see Table 2). Thus, for instance, in all countries producing motor vehicles, their output continues to afford a considerable prop to the engineering industry as a whole, as well as to other industries supplying basic materials or subsidiary components. As can be seen from Table 3, production

TABLE 3
Motor vehicle production and exports in the principal producing countries of western Europe
Thousands

Country	Passenger cars								Commercial vehicles								
	1955 1956 1957			1957				1958	1955 1956 1957			1957				1958	
				First quar- ter	Second quar- ter	Third quar- ter	Fourth quar- ter	First quar- ter				First quar- ter	Second quar- ter	Third quar- ter	Fourth quar- ter	First quar- ter	
France																	
Production	553	649	724	176	190	152	206	232	169	179	204	54	54	41	54	55	
Exports	133	151	219	46	63	50	60	79	30	25	33	9	9	6	9	12	
of which : to United States . .	7	12	51	10	13	12	15	19	—	—	0.4	..	..	..	..	..
Western Germany																	
Production	705	849	959	229	238	227	265	298	197	223	247	66	66	55	59	74	
Exports	357	421	516	117	122	118	158	98 ^a	68	81	97	24	25	23	25	15 ^a	
of which : to United States . .	39	62	112	24	25	25	38	19 ^a	1	3	9	2	2	2	3	2 ^a	
Italy																	
Production	231	280	318	70	85	80	83	61 ^a	39	34	34	9	10	8	7	5 ^a	
Exports	61	78	110	19	32	32	26	20 ^a	7	8	11	2	4	3	2	1 ^a	
of which : to United States . .	0.8	0.5	13.2	—	3.4	4.4	5.5	1.9 ^a	0.1	1.0	0.7	0.2	0.4	0.1	—	— ^a	
United Kingdom																	
Production	898	708	861	159	230	218	254	278	340	297	288	66	72	67	83	86	
Exports	391	336	426	91	114	107	115	132	140	126	123	29	33	28	33	36	
of which : to United States . .	21	38	95	20	23	25	27	37	0.2	0.3	0.7	0.1	0.2	0.2	0.1	0.6	

Sources : National statistics

^a January-February

of passenger cars was well above the level of the preceding year in the first quarter of 1958, and much of this achievement was due to the favourable development of exports to both western European and overseas markets—and especially to the United States, despite the depressed state of the automobile industry in that country. The expansion of the output of commercial vehicles was less pronounced, in part because of the relatively more limited export possibilities.

Coal and steel have been the products principally affected by the stagnation or downturn in economic activity (see Chart 2). A similar recession in these sectors in 1953/54 proved to be short-lived, but circumstances were then somewhat different. In particular, the western European economy had at that time already emerged from the post-Korean recession, and the fall in steel stocks was influenced by uncertainty about the effects of the establishment of the European Coal and Steel Community.³ A further important difference is the uncertainty surrounding the impact of the current recession in the United States, whereas in 1954 the recession in that country had already passed. Thus, the possibility of the present situation in coal and steel foreboding a

decline in other sectors of the economy seems somewhat greater than it was then.

The Softer Market for Steel

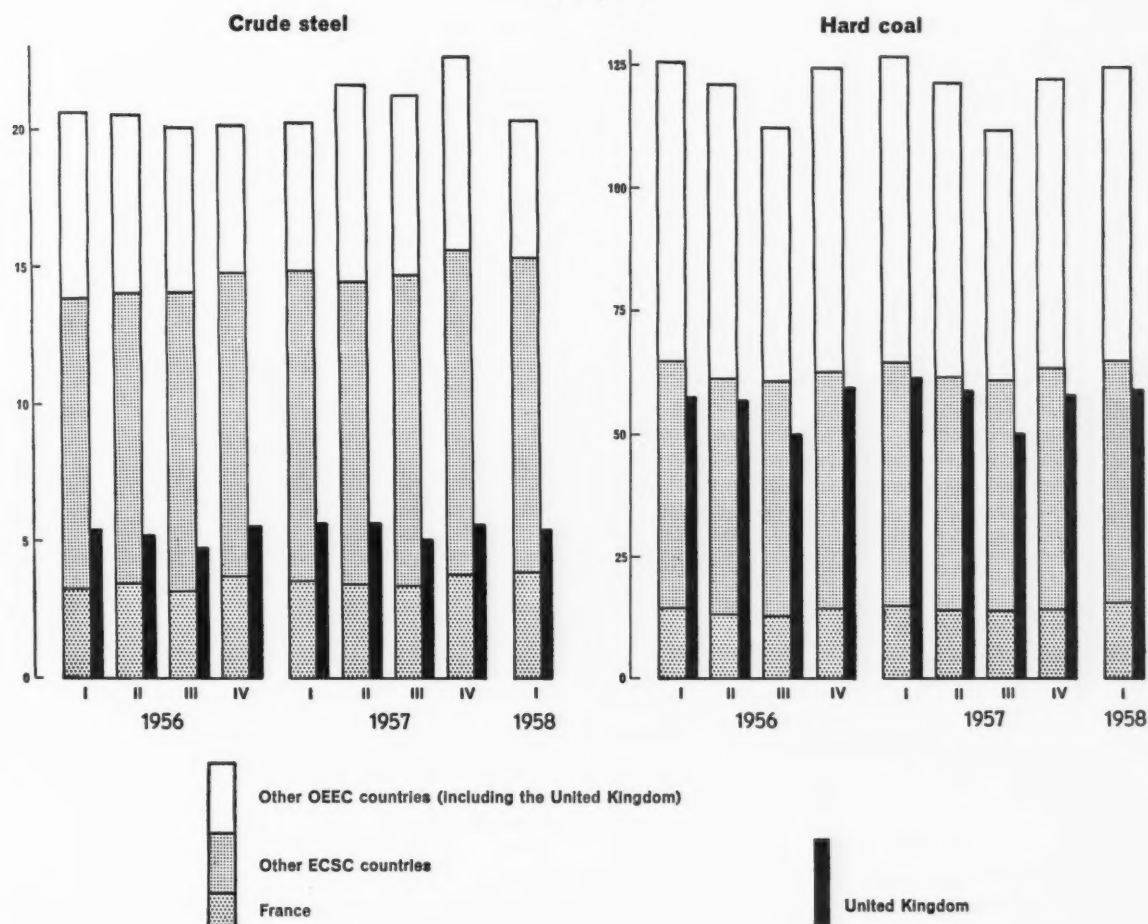
While considerable caution must be exercised in assessing prospects in the market for steel, the present disappearance of a sellers' market in all but a limited range of special types is an evident fact. In the United Kingdom, Belgium, Luxembourg and Italy, production of crude steel in the first quarter of 1958 was below the level of a year ago. In western Germany, the rise in output has been noticeably slower than in past periods and by April production was below the level of the previous year. Only in France did crude-steel output maintain its vigorous upward trend in response to the continuing buoyancy of home demand. In western Germany, the United Kingdom, Belgium, Luxembourg, Sweden and Italy, current output is below capacity levels—enlarged as a result of previous investments—even when allowance is made for the withdrawal of plant long overdue for scrapping, as in the United Kingdom, or, as in western Germany, for maintenance.

The weaker market for steel, with the principal exception of certain types of rolled products destined mainly for motor-vehicle production, appears to be

³ See *Economic Survey for Europe in 1954*, Chapter I.

CHART 2
Hard coal and crude steel production in OEEC countries

Millions of tons



Sources: *Quarterly Bulletin of Coal Statistics for Europe* and *Quarterly Bulletin of Steel Statistics for Europe*, Economic Commission for Europe.

associated with the slackening of domestic demand for some products of the metal-using industries. Producers' stocks of many types of steel have been accumulating, but the level of consumers' stocks, which may well have been influenced by expectations of a price decline, does not appear to be unduly high.

The fall in export demand has reduced intra-European trade in steel and has contributed to the general weakening of the market, Belgian producers being among the first to suffer. At the beginning of April the Brussels minimum prices (applicable to all Community countries other than Italy) were lowered by as much as 13 per cent. In some cases, the new prices, though still above the lowest quoted during the 1954 recession, are, for the first time in three years,

lower than those prevailing in the domestic market of western Germany.

Considerable caution must be exercised in present conditions in assessing prospects for steel in the near future. It may be premature to draw conclusions from the decline in incoming orders for steel — for example, in the United Kingdom, western Germany⁴ and Italy — since, as delivery dates shorten and supply conditions ease, consumers are less inclined to undertake longer-term advance ordering. However, any prolonged tendency for order books to shrink could not fail to have repercussions on production and investment. Indeed, production programmes in western

⁴ The volume of incoming export orders for rolled steel products has declined sharply since last December.

Germany and investment plans in Italy have already been affected.⁶

The Surplus of Coal

For the first time since the recession of 1953/54, the gap between coal production and consumption has been closing and the rapid accumulation of pithead and other stocks is now tending to affect the course of output, which in both western Germany and the United Kingdom is running below the previous year's level. The increase in Belgian production above the corresponding 1957 level during the first quarter of 1958 (resulting from the past successful recruitment of foreign labour and unwillingness to lose it again) has served only to raise even further the level of stocks in that country and to induce the Belgian authorities to invite the assistance of the High Authority in shouldering the financial burden involved.

The events in Suez, and fears of a prolonged oil shortage, led to speculative efforts to stock coal and to the placing of large orders for both coal from the United States and the necessary cargo space for its shipment. Thus, with a relatively mild winter in 1956/57, and substantial arrivals of American coal in 1957, western European countries entered the 1957/58 season with an unusually high level of coal stocks. A second mild winter, together with continued arrivals of American coal (even though at a somewhat reduced rate), in response to firm contracts placed in a previous period of feared shortage, accentuated the stocking problem.

The exceptionally high level of stocks in Belgium and other countries, shown in Table 4, is thus not due exclusively to weather conditions. Industrial demand for coal and the consumption of transport and other sectors has been rising less fast, or in some cases falling, as a result both of the dampening of economic activity and of the longer-term shift in favour of other fuels. Moreover, with the present depressed level of transatlantic freight rates, the landed price of American coal is often competitive with pithead prices in Europe — for example, in the Ruhr.

The widespread slackening or stagnation of demand for coal has also affected intra-European trade. This has been particularly serious for Belgium, whose high-cost coal supplies find a readier market in conditions of firm demand, and it is also hampering efforts by the United Kingdom to dispose of its surpluses by re-entering the export market.

The accumulation of stocks, and the less firm demand than heretofore, have presented the industry with a difficult dilemma with respect to its labour

⁶ The changed market position has also been one of the factors behind the prolonged delay in determining the siting and establishment of the fourth wide-strip mill in the United Kingdom.

TABLE 4
Pithead stocks of hard coal ^a

Thousands of tons

	Belgium	France	Western Germany	United Kingdom
1952	1 673	4 197	465	4 621
1953	3 077	5 762	841	1 909
1954	2 815	7 836	654	1 130
1955	371	5 983	572	2 330
1956	179	4 524	700	2 996
1957 First quarter	218	4 271	657	2 873
Second quarter	334	4 588	581	6 574
Third quarter	602	4 932	611	8 432
Fourth quarter	1 412	4 582	735	8 807
1958 First quarter	3 220	5 576	2 668	8 836

Sources : National statistics.

^a End of period.

force. While initially normal wastage and less overtime can give some relief, the point must soon be reached where the maintenance of a labour force reduced only by natural wastage must add undesirably to unit costs if output stagnates or declines. In the United Kingdom, recruitment has already been temporarily suspended (since April) and the voluntary extra Saturday shift abandoned. The difficulties of reattracting labour to the mines in a subsequent period of new expansion, however, are such that there is a natural tendency — even greater than in other industries — to hold on to existing manpower, the more so since in the longer run western Europe's demand for coal is bound once more to outstrip domestic supplies.

Forest Products

Trends in western Europe's production and trade in forest products depend primarily on domestic developments, and external factors have little influence, since trade with countries outside the region is unimportant in relation to total output. Thus, for instance, net imports of sawnwood and of small-sized roundwood (pulpwood and pitprops) represent only about 4 per cent of total consumption.

Towards the end of 1957, the slowing-down of building activity and industrial output in most countries of western Europe began to affect the level of sawnwood consumption. The first effect of changing market conditions was on intermediate stocks. At the beginning of 1958, the sawnwood industry, particularly

in the principal exporting countries (Sweden, Finland and Austria) expected a demand at more or less the 1957 level. Raw-material purchases in northern Europe were, therefore, considerably larger than in the past two years in order to enable the mills to replenish stocks, both of logs and of sawnwood, which had been depleted in 1956/57. But signs of weakening demand, and particularly indications of reduced building programmes for 1958, rendered importers more cautious than usual. The market remained quiet and the volume of purchases at the beginning of the second quarter of 1958 was unusually low for that period of the year. At present, there appears to be little chance of a revival, unless the prospects for consumers' demand become brighter, for instance as a result of a renewed growth of house-building activity.

For almost seven years, export prices in the principal exporting countries have, in general, varied remarkably little, though they have tended to strengthen in the past three years. Thus, they do not seem to have been affected at all by the general decline of most other raw-material prices since the end of 1956. Importers, on the other hand, have seen the landed cost of imported timber rise and their profit margins shrink from year to year until 1957, when the drastic fall in freight rates somewhat improved their position. The decline of maritime freight rates seems, in fact, to be the principal factor which prevented any recent decline of export prices.

Competition from North America, as a result of reduced domestic demand in that area, has frequently been mentioned as a factor which might reduce the level of European sawnwood prices. Past experience, however, suggests that North American demand has had little effect on exports to Europe. In fact, exports to western Europe have declined together with falling demand in North America or have increased simultaneously with rising domestic requirements. A large number of sawmills in that area are marginal producers, and rather go out of production when demand falls than try to find export outlets. However, it should be borne in mind that in a falling market even relatively small additional supplies from North America or from other sources might have a further depressing effect on the western European sawnwood market.

As to other forest products, the western European pulp and paper industry is among those likely to be more severely hit in 1958 than in 1957. Reduced consumption in the United States⁶ and increased exports of North American surplus supplies to western Europe, together with a growing imbalance between the productive capacity of western Europe's own

pulp and paper industries and current demand, might well lead to a further curtailment of output, particularly of market pulp in the principal exporting countries.

Other Industries

While certain tendencies towards recession have already appeared in the basic-materials industries, some other sectors have also begun to show the effects of weakening demand, though in a much less pronounced and general way.

The divergent progress of the metal-using industries has already been mentioned. As can be seen from the figures in Table 2, it is only in a few countries that output has actually begun to decline. In the Netherlands, the fall in the output of this sector, which was to some extent affected by the deflationary measures introduced in 1957, began in the summer of that year and has continued since; and in Belgium also, there was a downturn in the third quarter of 1957. In other countries, it is only in a few branches that production has declined. Thus, in the United Kingdom and, more recently, in France, the revision of defence programmes has affected the aircraft and related industries, but in the latter country there should be no great difficulty in finding alternative employment for redundant labour unless the restrictive measures taken have a greater effect on other metal-using industries than has been the case so far.

However, while the output of the metal-using industries is, on the whole, still well maintained, the recent decline in incoming orders gives rise to concern in some countries (see Table 5). Thus, incoming orders for machinery have been falling in Belgium since the autumn of 1957, and in the United Kingdom the persistent reduction of the order book for machine tools, which began some two years ago, has been increasingly influenced by the smaller flow of new orders. On the other hand, there is some evidence of a strengthening of domestic demand for the products of the metal-using industries in western Germany, following a period of almost two years in which the volume of fixed investment was virtually stable and the rate of expansion in this sector slowed down. Domestic orders for machinery have been coming in somewhat faster in recent months, but the increased demand in the rest of the metal-using industries is mainly for consumers' durable goods for the home market.

The decline in new orders in many western European countries has been particularly marked for shipbuilding, where very few new orders were passed in the first quarter of 1958 and an increasing number of orders have been cancelled. However, the size of existing order books, even after taking probable cancellations into account, is such as to guarantee work for a considerable period of time to come; and

⁶ For instance, consumption of newsprint in the United States decreased by 2 per cent during the second half of 1957 compared with the second half of 1956. In earlier post-war recessions consumption remained stable or even increased.

TABLE 5 — Index numbers of orders received and of the stock ^a of orders in industry — volume or value

Corresponding period of previous year=100

	1956 Year	Total orders				Home market orders				Export orders							
		1957				1958				1957				1958			
		I	II	III	IV	I	II	III	IV	I	II	III	IV	I	II	III	IV
METAL-USING INDUSTRIES																	
Belgium																	
Shipbuilding	281	67	33	29	48	26 b	29	10	41	16	114 b	82	45	26	82	20 b	
Machinery	127	99	88	88	69	62 b	117	82	89	70	80 b	81	98	85	68	108 b	
Vehicles	114	87	91	76	108	99 b	112	94	78	112	96 b	51	82	69	96	60 b	
Electro-technical equipment	116	108	108	97	105	92 b	114	116	93	98	86 b	95	91	105	121	105 b	
Heavy engineering	129	97	94	84	77	80 b	102	95	96	81	87 b	86	91	59	66	75 b	
Total metal-using industries (excluding shipbuilding)	124	99	101	81	82	83 b	109	98	82	81	87 b	82	107	77	84		
Western Germany																	
Machinery	(99)	(100)	(100)	(100)	(95)	(99) b	106	104	111	109	106 b	104	107	96	74	92 b	
Vehicles	(108)	(103)	(101)	(101)	(118)	(117) b	98	95	95	114	107 b	120	118	116	118	136 b	
Electro-technical equipment	(106)	(110)	(112)	(119)	(114)	(116) b	108	111	117	114	121 b	133	110	117	96	93 b	
Metal goods	(104)	(113)	(103)	(105)	(101)	(106) b	116	106	110	106	113 b	126	117	110	92	89 b	
Steel construction	(114)	(117)	(74)	(85)	(85)	(51) c	104	100	112	108	67 c	303	36	118	25	24 c	
Total metal-using industries	(103)	(104)	(103)	(105)	(104)	(107) b	106	104	109	111	110 b	112	111	104	89	99 b	
United Kingdom																	
Machine tools	90	87	92	90	96	83 b	76	85	99	104	91 b	121	113	69	78	69 b	
Oil equipment	124	94	83	89	83	76 b	88	82	80	78	77 c	104	101	86	86	81 c	
Shipbuilding	(106)	(190)	(135)	(60)	(15)	..	..	..	..	..	..	..	..	..	..	..
Total metal-using industries	(122)	(127)	(133)	(125)	(106)	..	..	..	..	..	..	..	..	..	..	..
Netherlands																	
Shipbuilding	125	115	117	113	106	..	98	101	95	91	(86)	146	141	142	125	..	
Machinery	114	117	122	110	97	..	114	107	89	82	(84)	125	166	169	130	..	
Transport equipment (excluding shipbuilding)	136	85	75	69	62	..	80	67	63	54	(98)	115	126	93	77	..	
Electro-technical equipment	113	106	95	99	97	..	101	84	89	86	(91)	112	106	108	107	..	
Total metal-using industries	120	110	107	103	96	..	101	95	89	83	..	129	130	133	115	..	
Sweden																	
Shipbuilding ^d	(189)	(158)	..	(133)	..	(90)	(138)	..	(133)	..	(86)	(172)	..	(133)	..	(93)	
Machinery ^d	(97)	(104)	..	(103)	..	(82)	(98)	..	(101)	..	(84)	(129)	..	(108)	..	(74)	
Electro-technical equipment ^d	(110)	(100)	..	(102)	..	(94)	(94)	..	(97)	..	(98)	(112)	..	(112)	..	(87)	
Metal goods ^d	(111)	(86)	..	(89)	..	(88)	(84)	..	(90)	..	(91)	(94)	..	(82)	..	(75)	
Total metal-using industries (excluding shipbuilding) ^d	(102)	(100)	..	(101)	..	(86)	(96)	..	(100)	..	(88)	(112)	..	(104)	..	(82)	
Machinery ^e	(97)	(97)	(99)	(108)	(80)	(86)	(94)	(105)	(110)	(78)	(82)	(105)	(104)	(85)	(104)	(84)	
Electro-technical equipment ^e	(100)	(103)	(118)	(95)	(100)	(93)	(96)	(122)	(98)	(112)	(103)	(129)	(108)	(88)	(70)	(65)	
Metal goods ^e	(102)	(94)	(103)	(89)	(92)	(92)	(94)	(103)	(88)	(92)	(92)	(94)	(106)	(94)	(94)	(94)	
Total metal-using industries (excluding shipbuilding) ^e	(99)	(97)	(103)	(101)	(87)	(89)	(94)	(106)	(102)	(88)	(88)	(105)	(96)	(100)	(83)	(91)	
CONSUMERS' GOODS INDUSTRIES																	
Western Germany																	
Textiles	(109)	(107)	(100)	(91)	(81)	(69) b	112	105	95	83	68 b	114	105	98	80	79 b	
Clothing	(113)	(112)	(109)	(100)	(95)	(92) b	117	113	104	100	96 b	104	132	140	91	96 b	
Shoes	(105)	(118)	(113)	(123)	(106)	(66) b	119	114	126	102	68 b	106	98	109	66	73 b	
Netherlands																	
Textiles	138	139	119	108	75	..	145	114	100	63	..	129	126	121	100	..	
Clothing	135	118	93	68	59	..	117	90	67	55	..	121	126	95	113	..	
Shoes	141	129	76	77	82	..	137	75	78	78	..	88	89	68	144	..	

Sources: National statistics.

^a End of period. ^b January-February. ^c January.^d Figures for the first quarter refer to the end of February; those for the third quarter and the year 1956 refer to the end of August.^e Figures for the first quarter refer to December-February, for the second quarter to March-May, for the third quarter to June-August, and for the fourth to September-November.

Key: 123 — Value index of orders received.
 (123) — Volume index of orders received.
 123 — Value index of stock of orders.
 (123) — Volume index of stock of orders.

in countries other than the United Kingdom the tonnage launched is still increasing. Some further shrinkage in order books, unless too prolonged, might, in fact, be beneficial; it would enable firm and shorter delivery dates to be quoted and should also contribute to an improvement in efficiency. Furthermore, the greater ability on the part of the steel industry, in present market conditions, to provide regular supplies—as, for example, in the United Kingdom—should also help to raise productivity.

Among the consumer-goods industries, the declining tendency is clear and widespread in the textiles sector, where output has been falling since the middle of last year after a brief period of expansion. In a number of countries—notably Belgium, the Netherlands and France—demand for textiles has weakened in recent months. In Italy production of natural fibres has begun to level off—possibly one of the first signs, together with the lower output of steel, that the impact of slackening demand elsewhere is beginning to make itself felt in that country, too. In both France and the Netherlands, restrictions imposed on the growth of total consumer demand (total private consumption in the latter country is no higher than the level of a year ago) have fallen particularly heavily on textiles, and in France it would appear that con-

sumers have preferred to curtail their expenditure on clothing and similar commodities in order to maintain their consumption of other items.

Such indications as exist do not suggest an improvement in the textile market in the near future, possibly rather the reverse. The rate of inflow of new orders for textiles in western Germany and the Netherlands has been declining since early 1957 and in the former country the degree of short-time working in the industry has been relatively important. According to the most recent west German Konjunkturtest (for the month of April)⁷ it is in the textiles branches above all that producers judge the level of stocks of finished goods to be too high and there, and in the clothing branches, the chances are rated highest that in the next six months the business situation will either remain unchanged or deteriorate. Rather similar results emerged from an enquiry conducted last February into the state of the Swedish textiles industry; and a United Kingdom inquiry in the same month among a representative sample of firms revealed that, together with building, the textiles industry showed a worse-than-average situation in respect of orders, profits and output.

⁷ See *IFO Schnelldienst*, 16 May 1958.

2. RECENT TRENDS IN CONSUMPTION AND INVESTMENT ACTIVITY IN WESTERN EUROPE

Consumption

In most countries, with the major exceptions of Finland and the Netherlands, private consumption in 1957 was, on the average, higher in volume than in the previous year. There is, however, some evidence to suggest that the rate of increase slowed down in the second half of 1957, and that this trend continued in the first quarter of 1958. The fall in private consumption in the Netherlands was due to the fact that the measures taken during 1957 had a particularly heavy impact on consumers' demand.

In the absence of recent data on private consumption,⁸ statistics of retail sales deflated by an appropriate index of retail prices have to be used, but they are inadequate indicators of consumption developments, since they cover only half or less of total private consumption. Moreover, in some cases, the data are based on an unrepresentative sample of retail trading establishments. Even when these limitations are borne in mind, however, the data presented in Chart 3 suggest that the growth of the volume of retail sales was decidedly less rapid in the second half of 1957 as compared with the first half-year, and often quite small. The preliminary data for the first quarter of

1958 suggest no change in this general trend.⁹ In western Germany, there may have been a change in the tendency, evident in the latter part of 1957, for the marginal savings ratio to increase, as witnessed by, *inter alia*, the recent rise of orders for consumers' durable goods. In the present situation, private consumption may still continue to act as a stabilizing or even expansive factor. In the longer run—unless the downturn in other sectors of demand is allowed to spread and to deepen, with a resulting growth in unemployment—the still very large potential demand for consumers' durable goods is a factor tending to support a renewed expansion of economic activity in western Europe.

Investment

National accounts data are not sufficiently up to date in most countries to show recent trends in total gross fixed investment or in its pattern. Annual figures for recent years, including 1957, show that the rate of growth of total gross fixed investment

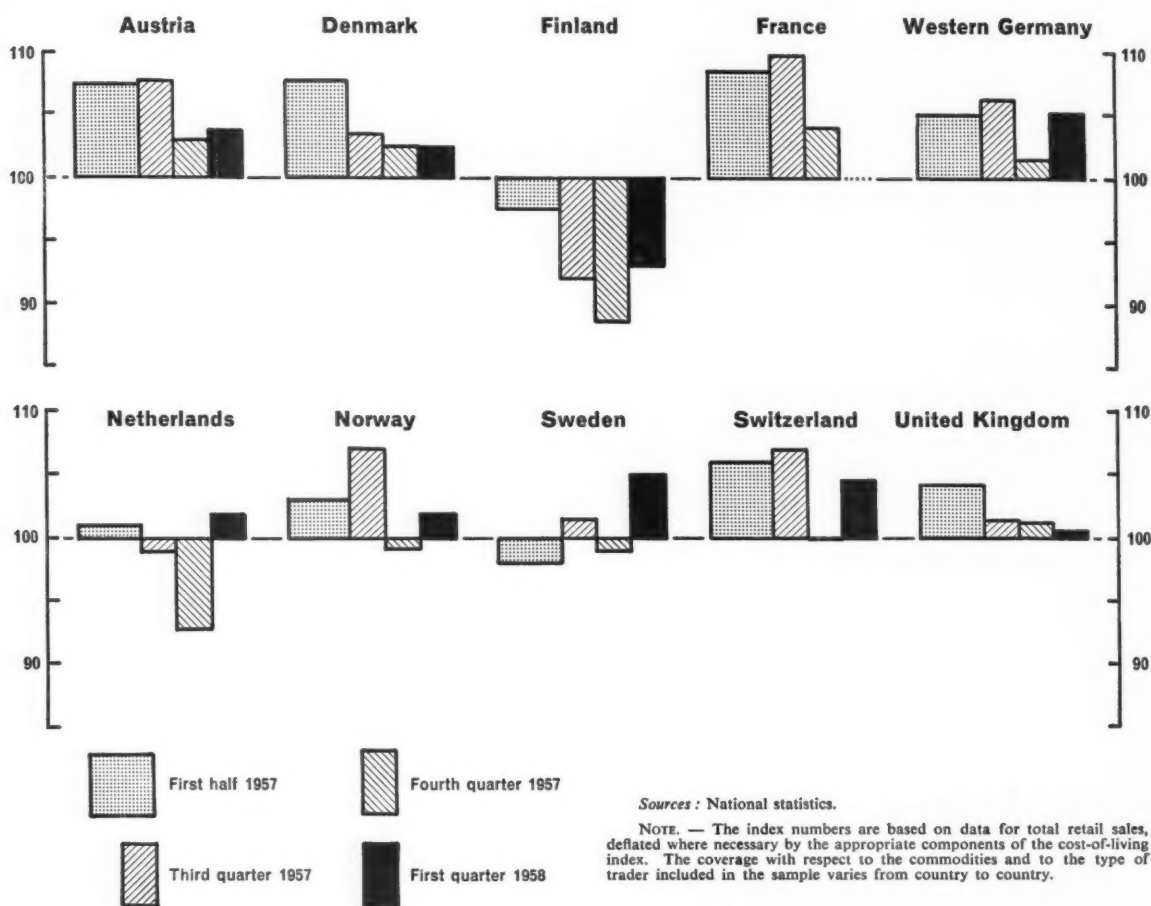
⁸ Except in the Netherlands.

⁹ The movement of retail sales between the first quarters of 1957 and 1958 may, to some extent, be affected by speculative buying in the fourth quarter of 1956 in connexion with the Suez crisis, so that purchases in the first quarter of 1957 were abnormally low. Any such bias would tend to over-state the true extent of increases in sales in the first quarter of 1958.

CHART 3

Volume of retail sales in selected countries

Index numbers : Corresponding period of previous year = 100



has declined in the last two years, or that investment has stagnated, in all countries for which data are available with the exception of France, Italy and Yugoslavia.¹⁰ In countries where measures were taken to check the growth of over-all demand, these invariably affected investment directly, but there was also the secondary effect of the slower growth of final demand on business expectations and investment decisions. During the last several years, there has also been a shift in the pattern of investment towards industrial and related investment, since housing was selected in many countries as a special target for restrictive action.

Indirect indications suggest that industrial investment continues to weaken. There is, however, little

evidence that business confidence has as yet been seriously shaken or that recent investment plans have been radically revised. The up-to-date sampling of opinion among business firms is undertaken in only a few countries. In western Germany, the April Konjunkturtest¹¹ revealed that, with the exception of vehicles, the investment goods industries expected the state of business to worsen a little in the coming six months. Expectations in the second quarter of incoming orders from the home market for the Swedish engineering industry were unchanged from those of the first quarter. A recent inquiry into investment intentions in Sweden revealed that industrial investment in 1958 would probably be some 8 per cent higher in value than in 1957, and this is expected to be one of the main factors inducing a moderate

¹⁰ See *Economic Survey of Europe in 1956*, Chapter III, Table 2, and *Economic Survey of Europe in 1957*, Chapter II, Table 9.

¹¹ See *IFO Schnelldienst*, 16 May 1958.

TABLE 6
Dwelling construction in western Europe

Country	Completions in 1957 (thousands)	Index numbers (corresponding period of previous year = 100)					
		1957	1957				1958
			First quarter	Second quarter	Third quarter	Fourth quarter	First quarter
<i>Belgium</i> ^a							
Authorizations		93	92	104	91	83	109 ^b
Completions	32.8	101	139	101	91	94	86 ^b
<i>Denmark</i>							
Starts		99	169	81	96	86	67
Completions	23.0	140	131	128	160	141	84
<i>Finland</i>							
Authorizations		83	110	64	76	100	65
Completions	19.6	103	109	83	109	106	70
<i>France</i>							
Authorizations		95	94	97	99	90	98
Completions	273.7	115	114		116		..
<i>Western Germany</i>							
Authorizations		91	96	87	95	91	98
Completions	493.3	93	114	100	92	87	79
<i>Ireland</i>							
Completions	8.1	80	113	100	78	42	..
<i>Italy</i>							
Authorizations		117	114	121	125	109	98 ^b
Completions	174.8	121	129	130	126	105	96 ^b
<i>Netherlands</i>							
Authorizations		95	109	118	87	72	64
Completions	88.4	129	168	129	119	119	105
<i>Norway</i>							
Authorizations		134	158	161	100	134	..
Completions	26.5	96	87	87	117	99	..
<i>Spain</i>							
Authorizations		103	129	90	108	93	104 ^b
Completions	29.5	82	89	81	83	77	103 ^b
<i>Sweden</i>							
Completions	64.1	113	107	138	123	101	..
<i>Switzerland</i>							
Authorizations		79	74	74	102	66	87
Completions	18.4	111	105	121	118	102	84
<i>United Kingdom</i>							
Starts		99	104	94	105	93	88
Completions	307.5	100	112	100	96	93	86

Source: Quarterly Bulletin of Housing and Building Statistics for Europe, Economic Commission for Europe, Geneva.
^a Number of buildings. ^b January.

NOTE. — The coverage varies from one country to another, and in some cases the data include, for example, urban construction only.

expansion of national product unless plans are later revised. The inquiry made into British industry in February tended to confirm that the investment intentions declared in September 1957 had not been substantially altered, and that private fixed investment would be about the same as in 1957. On the other hand, the fact that expected authorizations of capital expenditure in 1958 were lower than authorizations in 1957 for plant and machinery in 40 per cent of the firms, and for buildings in about one-half, suggests that, if present trends continue, private fixed industrial investment will fall off next year unless business expectations change very considerably in the meantime.

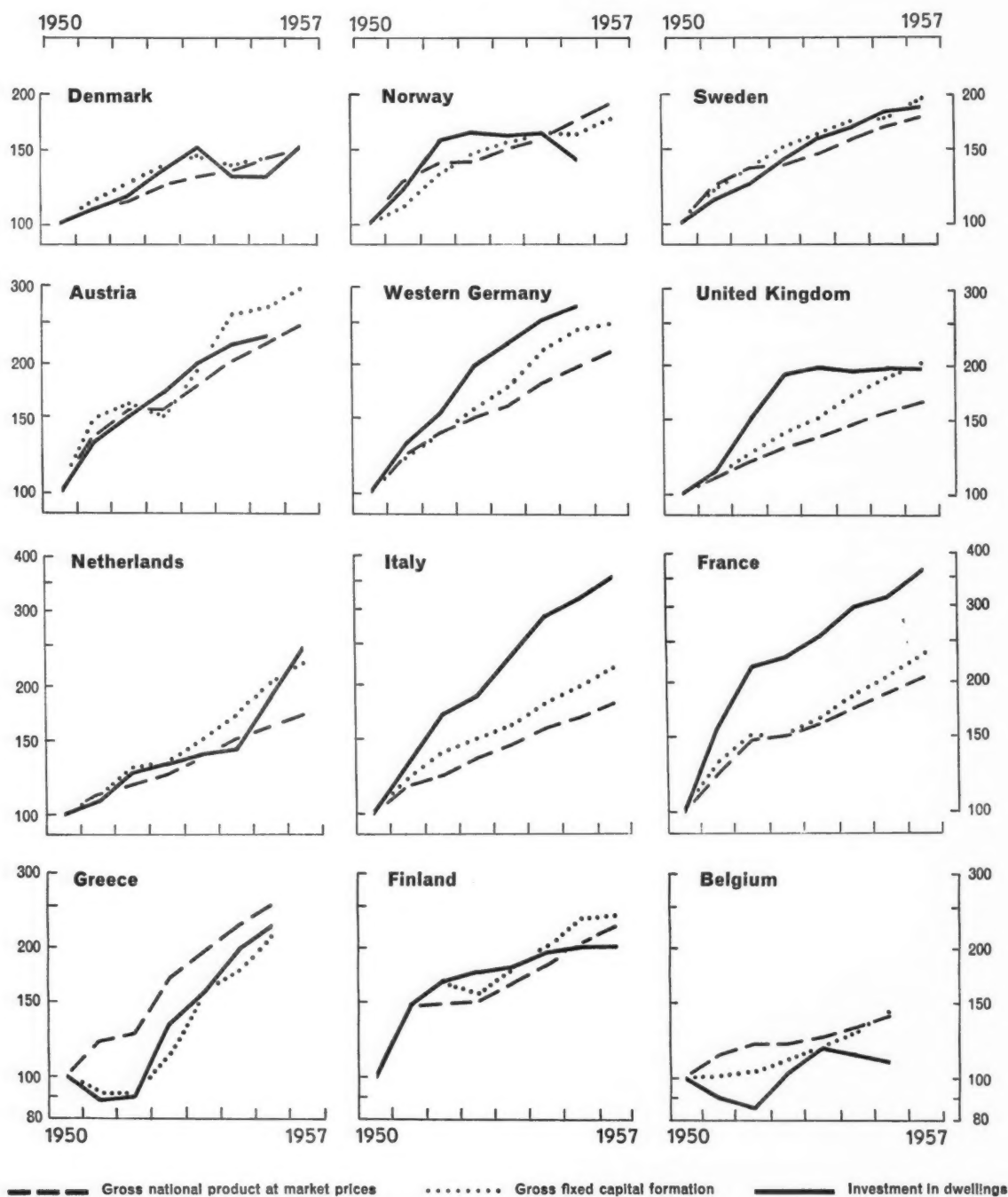
Investment in dwellings has accounted for a high proportion of total fixed investment and also played a dominant role in the expansion of total investment

in recent years. The indicators presented in Table 6, as well as a rise in unemployment in the building sector tending to exceed the average for all industry, suggest that the slowing-down of construction of dwellings, which was already noticeable in a number of countries in 1955 or 1956, has become both more accentuated and more widespread in the course of 1957 and that this trend is continuing into 1958. In addition to the effects on investment in dwellings of over-all credit restrictions, special measures — such as reductions in housing subsidies, curtailment of provisions for cheap credit and direct restrictions on building credits — have been taken in a number of countries in recent years to reduce the strains arising in the building sector and to release resources for industrial construction. High building costs have also

CHART 4

Gross national product, gross fixed capital formation and investment in dwellings
in selected European countries

Index numbers—1950=100— of values at current prices
Semi-logarithmic scale



Sources: National statistics and OEEC Statistical Bulletin.

acted as a brake to the expansion of investment in dwellings and, more recently, the slower rise in incomes has been another factor.

Rent policies also often work in the same direction. In countries where rents have been allowed to go up, this has increased the market supply of old dwellings and has presumably, therefore, had a dampening effect on demand for new dwellings. On the supply side, on the other hand, the incentives of higher rents affect only a relatively limited part of new house-building because of the predominant role played by the public sector in financing dwelling construction. In the longer term, demand for housing at present prices is likely to slow down in countries where the post-war backlog of housing needs has been filled, and there is also the demographic factor of the slowing-down in the numbers of married couples to be expected owing to the fall in the birth-rate during the 1930s. It would therefore appear that, in the absence of any policy change, investment in dwellings will join with other forces making for the slowing-down of expansion or the stagnation of economic activity in a number of western European countries.

The slackening of housing construction has already had repercussions on the building-materials industry in several countries and, as already pointed out, on the forestry industry. While the coverage of the figures in Table 2 varies considerably from country to country,¹³ there is clear evidence that there has been a downward trend in output of building materials in all the countries listed except France and Italy.

Seen in the longer perspective, investment in dwellings generally expanded more rapidly than both gross national product and total gross fixed investment in the earlier part of the boom, and continued to do so until recently in France and Italy (see Chart 4).¹³

¹³ In some countries such materials as porcelain are included under the heading "building materials".

In general, the pressure of demand from this sector continued to increase while the over-all pressure of demand was mounting and thus competed for resources with industrial investment. In fact, many difficulties connected with inflationary pressure, such as accumulation of orders, long delays in completions and strains on the labour market started in the building industry.

On the other hand, the construction of dwellings is also the sector which seems to have been affected most in countries where the rate of over-all expansion has slowed down and, as can be seen from the chart, the levelling-off of house building was more marked in such countries than that of gross national product and total fixed investment. Fluctuations in that sector were thus more violent than in other sectors of economic activity, adding to the strain on resources in the earlier period of boom and having to carry an excessive share of the burden of restrictive policies.

Since a large proportion of house-building is either directly financed or otherwise influenced by the public sector, the timing of fluctuations in house-building activity could be determined, to a greater extent than has in fact been done in the past, so as to limit its rate of expansion at a time when postponement would involve least economic loss and thus permit expansion of industrial investment to continue. Similarly, if and when it is decided to take measures to stimulate economic activity, the construction of dwellings might be a good starting-point in a number of countries — particularly since this is a sector where the import content is particularly low, so that expansion involves less of an immediate threat to countries in actual or potential balance-of-payments difficulties. Some countries, for instance the Netherlands, have, in fact, already taken special measures to stimulate housing construction.

¹³ In the Netherlands, investment in dwellings started its very rapid upward movement only in 1955 as a result of special stimulating measures to satisfy urgent housing needs.

3. THE WESTERN EUROPEAN LABOUR MARKET AND INFLATIONARY PRESSURE

The easing of the labour market has now become much more widespread, and in most countries the degree of unemployment has been greater in the spring of 1958 than one year earlier. But it is only in Denmark and in the countries of southern Europe that employment levels fall far short of virtual full employment. To some extent, the rise in unemployment has been due to seasonal factors, since the past winter was rather protracted and interfered with outdoor work; but other factors have also been responsible.

Seasonal factors partly accounted for unemployment being almost 60 per cent higher in western

Germany at the end of March than in the same month of the previous year, and for the unemployment ratio having increased from 3.7 to 5.7 per cent. But the fact that there were still roughly as many unemployed in April as twelve months earlier (representing about 3 per cent of the labour force) seems to indicate that the slower rate of expansion of the west German economy, particularly in the building sector, has at least brought an end to the continued decline in the unemployment ratio.

Finland, the Netherlands and the United Kingdom are among the countries where the rise in unemployment is concentrated in the building sector. In the

TABLE 7
Employment and hours worked in western European industry
Index numbers (average 1953 = 100)

		1955	1956	1957				1958, first quarter	
				First quarter	Second quarter	Third quarter	Fourth quarter	(1953 = 100)	(1st qtr. 1957 = 100)
<i>Austria</i>	Employment	114	119	119	120	123	124	122	102
	Working week	105	105	104	106	105	105	103	100
	Man-hours worked	120	125	123	127	129	130	126	102
<i>Belgium</i>	Employment	101	103	104	104	104	104	104	100
<i>Denmark</i>	Man-hours worked	105	99	104	107	94	103	104	99
<i>Finland</i>	Employment	106	108	105	104	108	103	98	94
	Working week	100	100	102	101	93	97	98	97
	Man-hours worked	106	108	107	106	101	100	97	91
<i>France</i>	Employment	101	103	105	106	107	107	108	103
	Working week	101	103	103	104	104	104	103	100
	Man-hours worked	102	105	108	110	111	111	111	102
<i>Western Germany</i> . .	Employment	114	121	121	124	126	126	123	102
	Working week	100	98	95	93	92	93	93	96
	Man-hours worked	115	119	115	115	116	117	113	98
<i>Italy</i>	Employment	102	104	103	106	108	104	98	94
	Working week	100	99	103	101	96	99	98	97
	Man-hours worked	103	103	106	107	104	105	97	91
<i>Netherlands</i>	Employment	107	108	109	109	110	108	..	..
<i>Norway</i>	Employment	103	103	103	104	106	105	104	100
<i>Sweden</i>	Employment	103	104	103	104	105	104	102	99
<i>Switzerland</i>	Employment	106	111	114	116	118	117	116	101
	Working week	100	100	100	99	99	99	99	99
	Man-hours worked	106	111	114	116	118	116	115	100
<i>United Kingdom</i> . .	Employment	105	105	104	104	104	105	105	101
	Working week ^a	101	100	100	100	100	100	100	100
	Man-hours worked	106	105	104	104	104	105	105	101

Sources: National statistics.

^a Estimated from quarterly data on overtime and short-time.

NOTE. — Industry generally includes mining, manufacturing and public utilities. Where man-hours worked are not directly available from national statistics, they have been derived by multiplying index numbers of employment by those of the length of the working week.

Netherlands, as much as one-fifth of the peak level of unemployment reached in March (representing almost 4 per cent of the labour force) was in the construction industry. Such a high ratio exceeded official expectations, and to counteract the more serious effects of the cuts in public spending resulting from their concentration in certain districts, the Government decided in January to undertake additional public works in these areas, to increase subsidies and licences for dwellings and to advance the placement of some government orders which had been postponed as part of the previous measures of retrenchment. In Finland, although peak unemployment

during the winter of 1957/58 was only slightly greater than in the previous winter season, rather more of the unemployed consisted of industrial and building workers. In the United Kingdom, where total unemployment in March was higher than a year ago, though still only 2 per cent of the labour force, the increase has been proportionately greatest in building. It is officially expected that a further rise in total unemployment will occur, and in order to assist areas where unemployment is substantially above the average it was decided, in connexion with the April budget, to allow the banks to treat advances to firms in those areas as falling outside the ceiling fixed last

September. Financial assistance from public funds may also be given where such assistance would be likely to raise the level of employment and where unemployment would otherwise be persistently high.

The ease with which surplus labour in the construction industry can find employment elsewhere is limited by the general tendency for the demand for labour to cease to expand or to grow only slowly and for unemployment to rise. This tendency can be seen from the figures in Table 7, though France and Austria are important exceptions. The figures shown in the table do not tell the full story, however, since in many instances there have been reductions in overtime and increased short-time working—for example, in the textiles industries of the Netherlands and western Germany. Only limited data are available on short time worked; in the United Kingdom, the number of operatives on short time in manufacturing industry in March 1958 was the highest for any March in the last six years, while in the Netherlands the aggregate of hours worked on short time (i.e., a week of less than 48 hours), which was a mere 18,000 in March 1957 for a regular sample of firms, had risen to almost 2.5 million in the same month of 1958.

But in spite of the slackening demand in the labour market, preoccupation continues to centre in most countries round internal price and cost increases rather than the spreading of contractionary tendencies.

As can be seen from Table 8, the over-all level of retail prices has tended to stabilize in recent months in the United Kingdom, the Netherlands, Denmark, Switzerland and Belgium; but elsewhere these prices continue their upward trend, if in some cases at a somewhat slower rate. In some countries, the continued rise of the cost-of-living index has been influenced by special factors. Thus, in Sweden, it reflects mainly increases in rents, indirect taxes and public service charges in 1957, and again at the beginning of 1958, and without this special factor the increase would have been modest. In Finland, the further increase in the cost-of-living index was the result of the devaluation of September 1957. The raising of gas and electricity charges and of rail transport rates contributed to the continued upward drift of the cost-of-living index in western Germany. In Austria, the slight rise in consumer prices is, similarly, mainly the effect of changed public-service tariffs and of some seasonal factors.

Prospects for future price increases are determined by the interplay of a number of factors, sometimes working in opposite directions. The most important consideration determining the degree of risk of renewed price inflation is the outcome of present wage negotiations. In the United Kingdom, the pace may well be set for wage increases of about 3 per cent. Wage awards of this order could no doubt be largely

absorbed by a rise in productivity but such a rise seems unlikely as long as output continues to stagnate. In western Germany, a number of important wage negotiations are still in progress, but settlements reached in the early part of 1958 have resulted in increases of the order of 6 per cent, a rise which is rather more rapid than that for the average of 1957¹⁴ and also than the growth of productivity. In the Netherlands, on the other hand, the price-raising measures adopted to check the rise in consumers' real incomes have not, so far, provoked compensatory wage movements beyond those negotiated to offset the previously agreed rise in rents.

The danger of a renewed price/wage spiral is greatest in those countries where general wage increases are to be expected because wages are fixed according to an automatic or semi-automatic index clause. In Sweden, while both the nationally agreed increase in wages during 1957 and the wage slide were rather more modest than in preceding years, renewed upward pressures are feared later in 1958. This is partly because the two-year wage agreement expires (and compensation will probably be sought for past increases in prices) and also because the termination in September of the three-year price scheme for agriculture is expected to bring about a 5-per-cent rise in prices of agricultural products and to lead to demands for compensatory wage increments. Moreover, the financing of the considerable budget deficit foreseen will almost certainly add to the pressure on prices and wages. In Norway, the trade unions consented to a three-year agreement—coming into operation in the autumn of 1958—concentrating, however, mainly on fringe benefits and the progressive reduction of the length of the working week. But the withdrawal of various consumer-price subsidies since March is expected to bring the retail price index by the summer to the critical level at which an increase in wages may be sought. In Denmark, the effects of certain indirect taxes are excluded from the relevant index, but the wage agreement for 1958, providing for a gradual shortening of the working week, will increase earnings by 2.5 per cent during 1958. In Finland, the devaluation of last September has brought about a further increase in the price level and brought the sliding scale once more into operation, resulting in an increase of wages by 4 per cent, by about the end of March. Though any subsequent increase in prices is to be compensated only to the extent of two-thirds, the danger persists that the achievement of price and wage stability at a new post-devaluation level will be at the cost of continued under-employment.

Another factor which is likely to be important in the coming months in determining the extent to which the cost inflation can be held in check is the improvement

¹⁴ See *IFO Schnelldienst*, 11 April 1958.

TABLE 8
Prices and wages in selected European countries

Index numbers (average 1955=100)

		1956	1957				1958
		December	March	June	September	December	March
Austria	Wholesale prices . . .	104.5	104.3	107.1	105.0	102.6	102.6
	Consumers' prices . . .	105.5	105.7	103.2	106.5	107.9	111.1
	Hourly earnings . . .	108.1	110.4	112.4	115.4	115.6	113.8
Belgium	Wholesale prices . . .	106.3	105.9	105.9	105.9	105.5	102.8
	Consumers' prices . . .	104.7	105.1	105.7	106.6	107.7	107.1
	Hourly earnings . . .	113.6	115.8	119.1	118.6	122.7	..
Denmark	Wholesale prices . . .	105.0	104.0	104.0	103.0	102.0	102.0
	Consumers' prices ^b . .	106.7	105.3	106.8	106.4	107.1	107.5
	Hourly earnings ^c . . .	111.9	111.0	117.4	112.2	116.1	..
Finland	Wholesale prices . . .	108.7	110.3	112.1	114.5	123.7	124.7
	Consumers' prices . . .	118.0	120.0	122.0	126.0	128.0	130.0
	Hourly earnings ^c . . .	115.3	115.3	117.1	118.0	119.1	..
France	Wholesale prices . . .	106.3	105.8	107.7	110.8	121.1	122.6
	Consumers' prices . . .	102.3	101.7	102.9	106.2	112.6	119.2
	Hourly earnings . . .	111.6	113.3	116.1	119.6	124.0	129.0
Western Germany . . .	Wholesale prices . . .	104.2	104.2	104.2	104.2	105.0	105.9
	Consumers' prices . . .	103.6	103.6	104.5	105.5	107.3	108.2
	Hourly earnings ^b . . .	112.0	114.9	118.6	120.0	121.4	..
Italy	Wholesale prices . . .	104.2	102.8	102.2	102.3	102.8	101.7
	Consumers' prices . . .	105.7	105.6	106.1	107.4	109.6	110.4
	Hourly earnings . . .	110.4	108.0	109.8	109.4	113.4	124.3
Netherlands	Wholesale prices . . .	105.1	104.4	105.1	104.4	104.4	103.6 ^a
	Consumers' prices . . .	103.7	102.8	107.5	111.2	110.3	110.3
	Hourly earnings . . .	106.0	112.6	113.2	117.9	117.9	117.9
Norway	Wholesale prices . . .	107.8	108.7	108.7	107.8	107.8	106.8
	Consumers' prices . . .	104.9	106.4	107.1	106.4	107.0	108.4
	Hourly earnings ^c . . .	112.4	110.3	120.2	112.4	115.6	..
Sweden	Wholesale prices . . .	106.5	106.5	106.5	105.8	105.8	105.1
	Consumers' prices . . .	106.7	107.5	109.0	109.8	111.3	113.5
	Hourly earnings ^b . . .	110.7	111.3	115.1	114.9	116.7	119.6
Switzerland	Wholesale prices . . .	104.6	103.6	105.2	103.6	103.4	101.8
	Consumers' prices . . .	102.8	102.1	103.2	104.2	104.9	104.6
	Hourly earnings . . .	104.2	105.3	105.7	106.1	107.0	108.7
United Kingdom	Wholesale prices . . .	106.1	106.9	107.8	109.0	109.3	108.9
	Consumers' prices . . .	106.3	107.0	108.7	109.2	111.3	111.5
	Hourly earnings . . .	109.2	110.0	114.0	114.9	115.2	115.5

Sources : National statistics.

NOTE.—Hourly earnings in general refer to manufacturing industry (i.e. excluding mining and building). For France, the Netherlands and the United Kingdom, the data refer to wage rates.

^a February.

^b Where data for the month indicated were not available, they have been replaced by data for the nearest month.

^c Figures refer to quarter ending in month indicated.

which has occurred in the terms of trade. Recent improvements have provided a welcome addition to real income in nearly all countries, except for those in Scandinavia which are highly dependent on shipping

income. Although no actual reduction may occur in the general price level of finished products, even in countries where the imported basic-material content of production is high, the gains reaped from this source

can, nevertheless, help to offset the impact of higher costs of other inputs.¹⁵ The wholesale price indices shown in Table 8 are, in most cases, disproportionately weighted by raw materials, but even taking this into account, it seems that — with France, once more, as the principal exception — wholesale prices have tended to level off or to fall. Any further pressure on consumer prices will therefore be determined by increases in other costs. Of these, labour costs at later stages of production and in the services sector are clearly the most important, though the upward trend of rents in such countries as the United Kingdom, the Netherlands and Finland will also play a role.

To sum up, the recent situation has been characterized by a continuation of moderate price increases, which, apart from the special factors mentioned, have

represented the delayed effect of previous cost increases — particularly wage costs — more than offsetting the fall in some raw-material prices. Moreover, and partly as a consequence of these price increases, some further wage increases will be sought in a number of countries despite stagnating demand and production and rising unemployment. These remnants from the last few years of a wage/price spiral are no longer an indication of excess demand, and it would, therefore, appear that in most countries conditions have changed sufficiently in this respect no longer to warrant any delays on the part of governments in taking action to reverse the stagnation or downward trend of economic activity. It would facilitate such a decision if governments could rely on restraint by all organized economic groups in demanding higher incomes, which would, particularly at this time, be in the real interests of them all.

¹⁵ See *Economic Survey of Europe in 1955*, Chapter III.

4. THE TRADE AND PAYMENTS OF WESTERN EUROPE

Broadly speaking, the continuing high imports of primary-producing countries, on the one hand, and the decline in the prices of primary products, on the other, have been the two most important factors responsible for the marked improvement which has taken place during the most recent months in the foreign-trade balance of western European countries. The downward movement of imports, after a weak seasonal revival in the last quarter of 1957, has continued and accelerated during the first months of the current year, and in all countries for which data are available, with the exception of Yugoslavia, Ireland and western Germany, the value of imports in the first three months of 1958 was lower than in the first quarter of 1957. In Finland the decline was of the order of 25 per cent as a result partly of the decrease in domestic activity and partly of the restrictive effect of the 1957 devaluation.

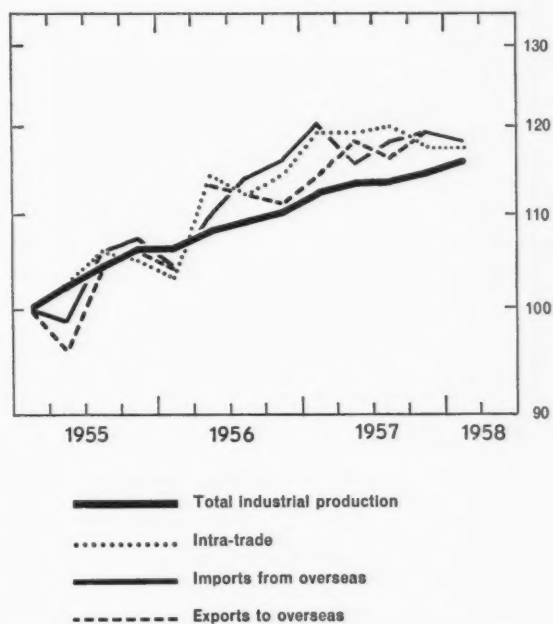
Export values also generally declined in relation to those of the first quarter of 1957, except in western Germany, the Netherlands, Italy, Denmark and Yugoslavia. The fall was particularly marked in Portugal because of the importance of colonial raw materials normally absorbed by the American market, and in Norway on account of the poor fishing season.

For the western European countries as a group, as can be seen from Chart 5, the volume of intra-trade and of imports from overseas in the first months of 1958 was below the level reached during the corresponding quarter of the preceding year. The opposite was true for overseas exports, thanks particularly to the growth of exports to the primary-producing countries already mentioned. As has been explained

CHART 5

Industrial production and foreign trade of western Europe^a

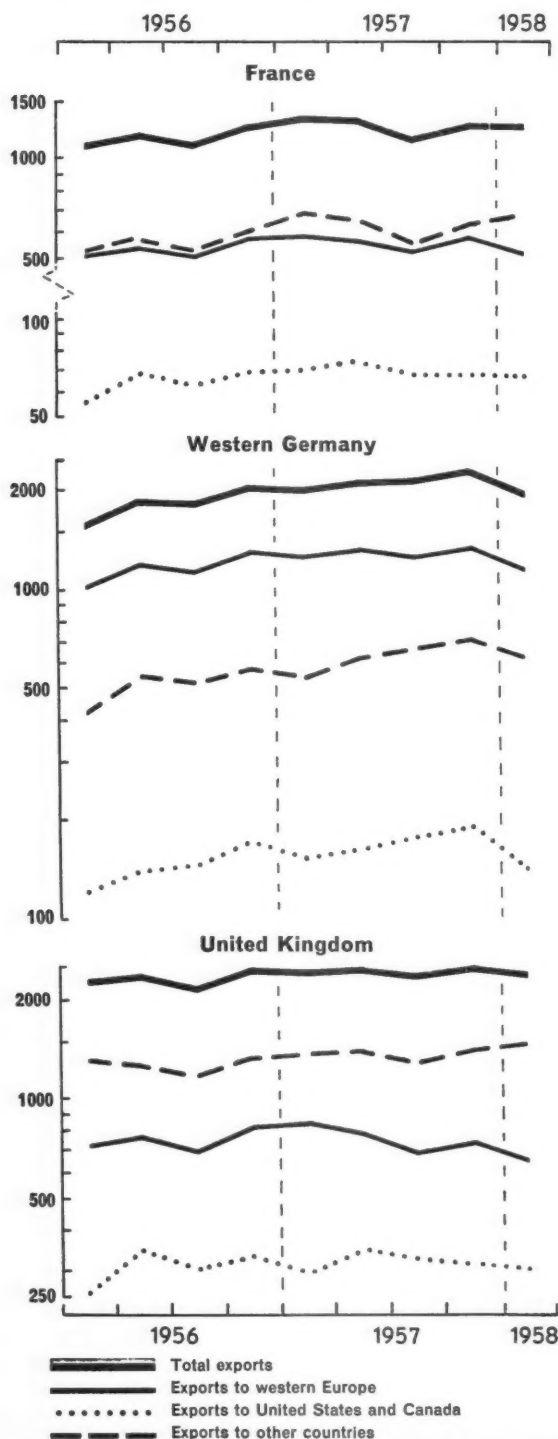
Volume indices—First quarter 1955=100
Adjusted for seasonal fluctuations
Semi-logarithmic scale



^a Figures relate to OEEC member countries.

CHART 6 — Exports of selected western European countries by main destinations

Millions of dollars, f.o.b. — Semi-logarithmic scale



Sources: National statistics and OEEC Statistical Bulletin, Foreign Trade (Series I).

elsewhere,¹⁰ exports to the United States have so far not been affected as much as might have been feared on the basis of the experience during past recessions.

Chart 6 shows the regional distribution of exports in value terms for the three major western European exporting countries — the United Kingdom, France and western Germany. As can be seen, the proportion of exports absorbed by primary-producing countries, eastern Europe and Japan combined was higher in the first quarter of the current year than in the corresponding period of 1957 in all three countries, and in the United Kingdom and western Germany there has been an absolute increase in values.

Among the factors making for such a development, which occurred in spite of a falling-off in prices of primary products, are the normal time-lag between such a price drop and the consequent reduction of imports into primary producing countries, the large inflow of capital into those countries from the United States and western Europe in 1956 and 1957, and the changed structure of their imports. A definite evaluation of the relative importance of these different factors cannot be given at this stage, but there is a distinct possibility that the present upward trend of western European exports will not be maintained in the months to come, unless appropriate support measures are adopted. Indeed, exports towards primary producing countries — and above all exports of costly investment goods and industrial equipment — are likely to depend increasingly on such measures on the part of the exporting countries, which might well be necessary not only to allow for a further export expansion, but even to maintain trade at the present high level when the reduced purchasing power of the importing countries begins to have its full impact. So far minor steps in this direction have been taken by the United Kingdom and Italy, and, more recently, some initiative came from western Germany, whose government has guaranteed export credits to support the participation of west German industries in long-term investment projects in non-industrial overseas countries.

The large decline in the value of imports already referred to is reduced to minor proportions in some countries once the fall in import prices is eliminated, while in others — including Switzerland, the Netherlands and Belgium — there has also been a sizeable reduction in volume terms (see Table 9). In western Germany, on the other hand, the volume of imports was as much as 7 per cent higher in the first quarter of 1958 than in the same period of the previous year. In most countries, there was a tendency for imports to slow down more rapidly than industrial production, and while this may be explained partly by the expectations of a further decline in import prices, it may well be

¹⁰ See "The International Impact of the United States Recession", Section 2, in this Bulletin.

TABLE 9

Recent trends of foreign trade in selected western European countries

Quarterly index numbers of volume (1955 = 100), adjusted for seasonal fluctuations

Country	1956				1957				1958
	I	II	III	IV	I	II	III	IV	I
Imports									
Austria	93	99	117	117	114	112	130	131	116
Belgium-Luxembourg	104	114	114	116	115	115	114	107	109*
Denmark	93	110	109	117	113	104	109	111	..
France	100	121	128	125	126	132	129	115	124
Western Germany	96	120	119	114	119	130	131	125	127
Italy	98	109	112	132	110	117	121	143	103*
Netherlands	102	112	120	119	123	117	122	116	104
Sweden	96	109	106	111	118	110	114	112	120
Switzerland	106	110	124	121	133	119	127	112	113
United Kingdom	102	97	99	100	106	97	104	105	102
Exports									
Austria	114	114	121	121	137	137	140	130	132
Belgium-Luxembourg	104	114	110	108	108	107	100	107	99*
Denmark	98	110	101	97	104	114	112	108	..
France	87	93	97	93	103	100	104	100	102
Western Germany	106	122	116	122	132	131	134	134	135
Italy	111	113	122	128	118	126	131	127	121*
Netherlands	101	111	102	100	112	104	111	109	117
Sweden	96	112	118	106	124	120	124	107	119
Switzerland	105	111	108	115	121	120	116	114	117
United Kingdom	102	108	103	108	107	109	108	105	104

Sources : National statistics, seasonally adjusted by the secretariat.

that the uncertainty about prospects for economic activity has led many traders to reduce the volume of their stocks, involuntarily built up towards the end of 1957 as final demand weakened.

Changes in the Terms of Trade

Import unit values have declined by some 3 to 10 per cent from mid-1957 up to the end of the first quarter of 1958 in most countries (see Table 10). Even within the group of industrialized countries, the movement of unit values has been by no means uniform, the differences among the individual countries mainly reflecting, on the one hand, different import structures, and, on the other, the varying importance of freight rates in import values.

The United Kingdom has experienced the most drastic fall in import unit values; indeed, this fall may be considered the outstanding external factor which affected the British economy during the latter half of 1957 and the first months of 1958. Import prices at the end of 1957 were 8 per cent, and in March of this year 10 per cent, lower than in the first quarter of 1957, most of the fall taking place in the second half of last year. In western Germany, the decline in import unit

values, which began in the third quarter of 1957, has been somewhat smaller — about 6 per cent — as a result, *inter alia*, of the smaller weight of freight rates in import values than in the United Kingdom.

On the export side, price variations have been rather more moderate, except in France, where export unit values were about 11 per cent higher during the first quarter of the current year than in the corresponding months of 1957, mainly as a result of the 1957 devaluation. Southern European countries, excluding Italy, which are mainly importers of finished products and exporters of agricultural products and raw materials, experienced a deterioration of their terms of trade. The excess exportable supplies of many agricultural commodities, and especially butter and dairy products, have also affected the export prices of Denmark.

Freight Rates

The slow rise in the volume of world trade during 1957, and its levelling-off in more recent months, have brought about both a fall in freight rates and a rapid increase in the number of ships laid up for reasons other than repair. Ships laid up in British and

TABLE 10
Import and export prices in selected western European countries

Unit value indices and terms of trade (1955 = 100)

Country	1956 Year	1957				1958
		First qtr.	Second qtr.	Third qtr.	Fourth qtr.	First qtr.
Import prices						
Austria	103	108	103	105	102	100
Belgium-Luxembourg	103	108	108	106	103	100*
Denmark	104	108	107	103	103	..
France	105	112	110	113	124	122
Western Germany	102	104	104	103	100	98
Italy	103	112	112	109	108	105*
Netherlands	103	108	111	110	106	104
Sweden	104	109	109	105	104	105
Switzerland	103	106	107	106	105	104
United Kingdom	102	107	107	103	99	96
Export prices						
Austria	103	102	104	103	103	101
Belgium-Luxembourg	106	110	111	109	108	109*
Denmark	104	103	101	101	103	..
France	104	107	107	112	119	123
Western Germany	103	105	106	106	106	106
Italy	104	108	107	107	105	109*
Netherlands	102	105	107	108	106	104
Sweden	102	104	104	103	104	103
Switzerland	99	100	100	101	102	104
United Kingdom	104	108	108	110	109	108
Terms of trade ^a						
Austria	100	94	101	98	101	101
Belgium-Luxembourg	103	102	103	103	105	109*
Denmark	100	95	94	98	100	..
France	99	96	97	99	96	101
Western Germany	101	101	102	103	106	108
Italy	101	96	96	98	97	104*
Netherlands	99	97	96	98	100	100
Sweden	98	95	95	98	100	98
Switzerland	96	94	93	95	97	100
United Kingdom	102	101	101	107	110	113

Source : National statistics.

^a Ratio of export prices to import prices.

Norwegian ports at the beginning of March 1958 exceeded a million gross tons and, according to more recent information, merchant ships laid up throughout the world for lack of profitable employment are estimated to have reached 6 million gross tons in April. Half are oil tankers and half dry-cargo vessels, representing nearly 5½ per cent of the total world merchant fleet.

During 1957, new ships delivered by world shipyards reached a level of 8 million tons, while ships scrapped have been estimated at 1.5 million tons, with a resulting net increase in world tonnage of 6.5 million tons. Such an increase, taking into consideration the average degree of employment of the ships, would have required an expansion of 10 per cent in the volume of sea traffic,

which, however, seems to have exceeded the 1956 level by 2 to 3 per cent only. In view of the large number of vessels under construction and currently delivered by the shipyards and despite the laying-up of the old and less efficient ships, further falls in freight rates cannot be ruled out.

Increases in Exchange Reserves

The course of exports and imports, which has been briefly outlined above, has brought about a remarkable improvement in the balance of payments of western European countries, though some repatriation of short-term funds may also have played a part. In the United Kingdom, the increase in the reserves by

TABLE 11
Gold and foreign exchange reserves
of western European countries (gross holdings
of central banks and treasuries)

Millions of dollars at end of month

Country	1957		1958
	March	September	March
Austria	403	500	511
Belgium-Luxembourg . . .	1 062	1 035	1 214
Denmark	124	159	172
Finland	140	158	205
France	1 261	825	..
Western Germany	4 497	5 759	5 558
Greece	224	189	..
Iceland	15	11	16 ^a
Ireland	239	253	253
Italy	1 296	1 432	..
Netherlands	1 041	921	1 237
Norway	187	179	191
Portugal	683	681	..
Spain ^c	89	81	79 ^b
Sweden	476	463	436
Switzerland	1 809	1 895	1 906
Turkey	239	311	300 ^a
United Kingdom ^e	2 209 ^d	1 850	2 770
Total gold and dollar holdings as reported by U.S. . . .	14 018	14 251	15 296 ^a

Sources : International Financial Statistics, International Monetary Fund, statements of national banks.

^a February.

^b January.

^c Gold and U.S. dollars as reported by the United States.

^d Excluding \$104 millions of interest due to U.S. and Canadian Governments held in a special account and repaid to the reserves in April.

^e Gold and U.S. and Canadian dollars only.

\$231 million in March 1958 was the largest monthly gain since October 1950.¹⁷ The main contribution has come from commercial transactions, but non-trade factors have also been partly responsible. During the six months from September 1957 to March 1958, there has been a rise of over \$900 million in the reserves, bringing them up to a level higher than that of the beginning of 1955.

Many other western European countries have also witnessed a distinct improvement in their balances of payments, particularly with the dollar area, and a substantial recovery in foreign-exchange reserves during the last months (see Table 11). However, the foreign-exchange position has been deteriorating in Norway, Sweden and France. In Norway a fairly important deficit (expected to reach 1 billion kroner) will

¹⁷ Ignoring the gains of October 1957, added to by the Export-Import Bank loan. The increase in March included \$94 million arising out of the EPU settlement in respect of February. In that month, however, the EPU surplus of the United Kingdom was inflated by the receipts from a capital issue by Anglo-Dutch oil companies.

be covered by the running-down of foreign-exchange reserves and by private and public borrowing abroad, and France has already been compelled to draw largely on foreign loans received in January 1958.¹⁸ Western Germany's foreign-exchange reserves have fallen slightly from the exceptionally high peak reached at the end of the summer of 1957, but there are no indications that the longer-run upward trend has been stopped. The Bundesbank expects, however, that the deficit on capital transactions for 1958 will show an increase arising from payments to institutions of the European Economic Community, further transfers to the International Monetary Fund for the benefit of other countries, and larger capital exports. This has been estimated¹⁹ to reduce the balance-of-payments surplus to about DM 2 billion as against DM 3.5 billion in 1957.

Thus, the recent improvement in foreign-exchange reserves is the outcome of a number of factors present, to a varying degree, in most countries: the decline in import prices, the slowing-down or actual reduction in import volumes following the levelling-off in industrial production, the maintenance of a high level of overseas exports at stable or increasing prices, and the reflux or new borrowing of short- or medium-term capital. Thus, one of the major objectives, in some countries, of restrictive economic policies — namely, to improve the balance-of-payments position and/or to counteract speculative runs — has been at least partly accomplished. However, if economic activity in the industrial countries and particularly the United States does not revive in the near future, western European exports to overseas primary-producing countries must be expected to decline in the course of this year. It is rather improbable that any such loss would be compensated to a major extent through a further improvement in the terms of trade though, of course, the net adverse effect on western Europe's balance of payments could be reduced by any fall in imports accompanying a further slackening of activity. Further, the strengthening of western European foreign-exchange reserves through the reflux of short-term funds is in the nature of the case a temporary phenomenon. The distribution of foreign-exchange reserves among western European countries has shown an improvement, but there has still been no substantial change in the chronic debtor and creditor positions of France and western Germany.

¹⁸ At the end of March, France had drawn on the credits received in January as specified in the following figures:

	Granted	Utilized
	(Millions of dollars)	
EPU credit	250	62
IMF credit	131	65
United States credit . .	274	186
	655	313

¹⁹ See *Monthly Report of the Deutsche Bundesbank*, February 1958.

5. ECONOMIC POLICY ISSUES IN WESTERN EUROPE

Official Forecasts

As has already been pointed out, downward tendencies have recently become quite clear-cut and widespread in the basic materials and textiles industries and in house-building. Within the sector of investment goods, the situation is more diffuse, the only general features being the continued growth of motor vehicles and chemicals production and the severe reduction in new orders flowing to the shipbuilding industry. Indications derived from order books and entrepreneurs' expectations point to an unpromising outlook for investment demand, in part caused by worsened prospects for exports. On the other hand, prospects for consumers' demand continue to be bright both in the short term and in the longer run.

In the opening months of the year, official expectations, in countries where prognosis is put on record, did not look to a very high rate of increase in national product during 1958. The Swedish national budget assumed a third year of growth at the relatively slow rate of 2 per cent and that of Norway of about 3 per cent, with an increase in fixed investment other than ships limited to between 1 and 2 per cent. Forecasts made for Finland suggest no increase, and possibly a decline in total output. Even in Yugoslavia, where the national product was 20 per cent greater in 1957 than in 1956, the plan provides for only a 4 per cent rise in the current year.²⁰

Official estimates have since become available for some other countries. In Belgium, according to estimates published in April,²¹ industrial production (excluding building) is likely to be roughly 3 per cent lower than in 1957, with particularly marked falls in the textiles and metals industries. Output in the building and construction sector is expected to fall by 10 per cent. According to estimates published for the Netherlands in March (though prepared at the end of 1957),²² the national product of that country should actually be some 2 per cent smaller than in the past year, mainly on account of a substantial reduction in the volume of investment, both in fixed assets and in stocks; and in Denmark the official economic survey²³ inclines to the view that, in the light of the international economic situation, no significant improvement over 1957 is likely in the domestic economy. Finally, in his budget statement

of 15 April, the Chancellor of the Exchequer pointed to the tendency for industrial production in the United Kingdom to decline slightly in the last few months and for unemployment to rise, trends which he thought might well go farther during the rest of the year. No official forecasts are available for western Germany, but the evidence points to a relatively slower rate of growth in that country, too. The gross national product of France is expected to be about 3 per cent greater in 1958 than in 1957.

Thus it can be seen that, on the basis of the tendencies prevalent in the past few months, the rate of growth in western Europe as a whole during 1958 is likely to be rather slow. On a very rough basis, and taking into account such official or other estimates as are available, it may well be that the average increase for twelve countries, representing more than 90 per cent of the total of the national products of western Europe, will not exceed 1 to 2 per cent. This assumes both that the policies at present in force in these countries will be maintained without any substantial change and that the contractive effects of a levelling-off in European trade, or of economic developments in the United States and other overseas countries, will not be greater than is implied in the official expectations — an assumption which may well turn out to be optimistic.

The Special Case of France

In France there has so far been no interruption of the rapid expansion, and in the first quarter of this year industrial production was about 10 per cent above the level of the corresponding period of 1957.

This achievement, especially in a climate of rather general slackening of economic activity, could be considered as very gratifying, were it not for a number of existing or potentially unfavourable factors which accompany it. In spite of the series of measures taken in 1957 and early in 1958,²⁴ no real progress is apparent, so far, in attaining either a decisive improvement in the balance of payments or a consolidation of the post-devaluation price level — the dual target of all the measures taken. There is no doubt as to the urgent need, in view, *inter alia*, of the entrance into the Common Market and of existing commitments to relax import restrictions, for France to accomplish these objectives.

²⁰ The exceptionally high rate of growth in 1957 was in large part due to agriculture, but industrial output nevertheless rose by 16 per cent.

²¹ *Planning de la production industrielle belge 1958*, Ministère des Affaires économiques, April 1958.

²² *Centraal Economisch Plan 1958*, Centraal Planbureau, March 1958.

²³ *Økonomisk Årsoversigt*, March 1958.

²⁴ The main lines of governmental intervention since August 1957 can be summarized briefly as follows: suspension of import liberalization, adjustment of the rate of exchange, credit restrictions, reduction of government expenditure (both on current and capital account), increase of direct and indirect taxes, re-enforcement of price control after allowing for an upward adjustment and various advantages granted to exporters.

A number of factors are responsible for the fact that the measures taken have so far proved insufficient. Apart from the inevitable time-lag between the enforcement of policy decisions and their impact on the economy, there was, for instance, the fact that import licences already granted continued to be a drain on foreign exchange reserves even after the introduction of a new system of quotas^{24a}. Consumers' demand continued to be buoyant in spite of the reduction of real wages resulting from the adjustment of prices authorized by the Government,²⁵ and the maintenance of the continued high level of private investment — one of the main factors behind the sustained rate of growth — was facilitated by the slowness of the effective application of credit restrictions and the fact that they were not applied absolutely rigidly. The intended restriction of credit through the repeated lowering of rediscount ceilings in 1957 was increasingly counteracted in the latter part of the year by the inflow of new funds to the banks in consequence of the growing share of the Bank of France in the financing of the budget deficit and also of the temporary improvement in the foreign balance. The rate of production growth has been practically as high as a year ago, and pressure on prices and on the balance of payments has diminished but little. Between July 1957 and March 1958, the cost-of-living index has risen by 15 per cent, a rate of increase which suggests that it was less the result of the devaluation than of special government measures directly influencing prices and of the rise in the prices of meat and wine due to temporary shortfalls of supplies. Wages in industry, which are partly geared to the level of prices,²⁶ rose by 10 to 11 per cent in spite of a certain easing of the pressure of excess demand on the labour market. Thus, the adjustment of the exchange rate undertaken in August 1957 did not improve the competitive position of the country.²⁷

However, once sufficient time has elapsed for the restrictive measures to have their full impact on the economy, inflationary pressures are likely to weaken, though to an extent dependent on how far further wage claims can be restrained or resisted. In fact,

^{24a} There was, however, a period of four months after the introduction of the new system in June 1957, during which imports fell rapidly. Exports, on the other hand, which had declined in the summer of 1957, picked up after the August devaluation and the increase continued in the early months of 1958. As a result, the trade deficit was about 150 billion francs smaller in the second half of 1957 than in the first.

²⁵ However, after some speculative buying of durable goods towards the end of 1957, some signs of flagging demand began to appear in some sectors such as household goods, textiles and paper products.

²⁶ Minimum wages are automatically tied to a narrower cost-of-living index, which has risen by 11 per cent.

²⁷ It can, however, be argued that following the upward adjustment of many prices of manufactures a more "normal" domestic price structure has been established.

entrepreneurs appear already to be influenced in their expectations by the series of policy measures and the worsening of export prospects, and the demand for additional workers is, therefore, easing somewhat, as is evidenced by the slight decline in the number of unfilled vacancies.

If expansion were to continue unabated, the rapid depletion of the foreign exchange reserves, built up by means of borrowing abroad at the beginning of this year, would lead inevitably to a further considerable tightening of import restrictions or renewed need for external assistance, or both. However, according to views expressed in an official report,²⁸ an indiscriminating contraction of activity would also be inadequate, since it would not save enough on imports to re-establish the equilibrium of the balance of payments, but would create mass unemployment and reduce investment to a level far below that required for a long-term solution of the problem.²⁹

The measures already enforced aim at a slowing-down of consumers' demand and, more generally, at a slower rate of growth of domestic activity, and according to the report mentioned, they should result in a substantial decline of the rate of output during the second half of this year.³⁰ The question arises, however, whether a policy concentrating on the restriction of consumer demand offers the best hope either of improvement of the foreign balance at a minimum cost in terms of domestic output and employment or of checking the price-wage inflation which, as has been mentioned, has already gone far to offset the benefits of the last exchange-rate adjustment. In present circumstances some brief and selective cut in the level of investment, rather than concentrating all restraints on consumption, would have the advantage that wage-price pressures are likely to be less difficult to restrain if real earnings are being maintained. At the same time the resources released may be somewhat more readily diverted to export markets than would those freed by an equivalent reduction of consumption. For some time to come, however, special efforts to restrain demand for goods with a high import content and to stimulate exports will be justified, particularly since, in the

²⁸ See *Rapport sur les comptes de la nation de l'année 1957* and *Rapport sur les budgets économiques de 1958*, Ministère des finances, Service des études économiques et financières, Paris, April 1958.

²⁹ The report undertakes some calculations to show that it would be necessary to cut domestic output at market prices by 1,500 billion francs, or some 7 per cent, in order to reduce consumer demand for commodities, estimated at factor cost, by 330 billions. Of course, only a part of these 330 billions would represent a net saving of imports.

³⁰ Total industrial production, which for the first half of 1958 is likely to be some 9 per cent above the corresponding level of the previous year, should be 8 to 9 per cent below that level during the second half of 1958, if the foreseen increase of 5 per cent in the 1958 yearly average rate of output is to materialize.

longer run, more fundamental measures—tending to influence production and expenditure patterns in this direction—will be needed to improve France's competitive position in world markets.

In view, *inter alia*, of France's obligations both to the OEEC and to the European Economic Community to relax import restrictions, short-term measures of the kind suggested above could clearly not be regarded as more than an emergency programme. Moreover, any prolonged check to the growth of industrial investment runs the risk of merely substituting the adverse effects of slowly rising productivity for the present problems created by wage pressures.

Recent Policy Measures

The preceding analysis of the present economic situation reveals several features—partly contradictory. Fears of continuing inflationary pressure, arising in particular from fresh wage claims, still influence some governments, although the decline in employment in a number of countries has eased the strain on the labour market. Moreover, the continued, although slower, upward drift of price index numbers for consumers' goods has contributed to the maintenance of a wait-and-see attitude towards policy changes.

So far, as has been pointed out, official opinion in nearly all countries has inclined to the view that some further time is required before it can be appreciated whether a definite downward trend in activity is setting in and needs to be corrected, though some countries are known to have plans in hand or under preparation to provide employment if measures to counter recessionary tendencies should, in due course, seem to be desirable. Of countries which have of late taken a certain number of expansionist measures, nearly all have done so rather to counteract the consequences of previous restrictive measures which had overstepped the mark than to give a positive stimulus to expansion.

In the Netherlands, for instance, the restraints imposed on total internal demand, and especially on investment in building and construction, produced results with an unexpected rapidity and severity, and unemployment in certain areas was such that in January the authorities decided to undertake fresh public works in these areas, to grant more subsidies for housing, and to revive government orders that had previously been postponed. In the United Kingdom, a policy of modest selective measures of stimulation was initiated with the budget, whereby, as described above, areas which had been harder hit than the average were accorded special facilities and export guarantees were extended to ensure that opportunities for export were not lost through lack of suitable credit facilities. At the same time, the initial tax allowance

for investment was increased, but it was considered inadvisable to restore the investment allowance that had been introduced in 1954 and suspended in 1956.

The restrictive credit policy pursued in Finland has been somewhat relaxed, since there has been some improvement in foreign exchange reserves and a smaller rise in domestic costs than was feared as a result of devaluation, while industrial production and building have been flagging. In Denmark, too, where the improvement in the reserves has allowed a slight easing of policy, the relaxation has been mainly in the credit field. At the beginning of May, the Swedish authorities took the first steps to counter an increase in unemployment—particularly pronounced in the building sector—by removing all quantitative restrictions on house-building and providing additional credits for housing starts. Moreover, the special tax on investment introduced in 1955 expired at the end of 1957. At the same time as building was stimulated, the central bank discount rate was lowered by one-half per cent to 4.5 per cent.

Similar reductions have been made in discount rates in other countries, beginning with western Germany in January, and followed by the United Kingdom (from 7 to 6 per cent in March and to 5.5 per cent in May), the Netherlands (from 4.5 to 4 per cent in March, following a similar reduction in January), Belgium (4.5 to 4.25 per cent in March) and Denmark (from 5.5 to 5 per cent in April). Thus the tendency towards higher discount rates that was a feature of the second half of 1957 has been reversed. Clearly, this is a reflection of the changed situation, not only with regard to foreign-exchange reserves, but also to the general state of business. But it is very far from constituting any kind of return to "cheap" money and, by themselves, small changes in interest rates are likely to be as inefficient a weapon in stimulating aggregate demand as they have been proved to be (when unaided by any other measures) in restraining it.

The Need for Co-ordination

While governments inevitably face difficulty in deciding when to reverse present policies, they also face the problem of choosing between different alternative measures to be taken. Such a choice must depend not only on anticipations of future economic developments, but also upon the measures hitherto applied and the way in which they have affected the different sectors of demand. In the latter respect, there are obviously differences among countries in the extent to which monetary and budgetary policies have been appropriately co-ordinated during the boom period and subsequently when activity was made to slow down. A close study of budgetary and fiscal policies would show striking differences between the measures applied by different countries during the

TABLE 12

Central government current revenue and total expenditure as percentage of gross national product ^a

Country	Year	Total current revenue	of which:				Total expendi- ture	of which:					
			Income and property taxes		Customs duties	Excise and purchase taxes		Public consumption		Trans- fers	Direct civil invest- ment	Loans granted	Other
			Per- sonal	Cor- porate				Civil	Mili- tary				
1	2	3	4	5	6	7	8	9	10	11	12		
Austria ^b	1953	19.4	..	..	..	..	21.8	5.8		10.9	0.7	4.4	
	1954	19.2	5.2		8.9		21.2	5.2		10.0	0.9	5.1	
	1955	18.6	3.9		9.4		20.6	5.3	0.2	9.4	1.2	4.5	
	1956	18.7	3.8		9.2		20.4	5.1	1.0	9.3	1.3	3.7	
	1957 ^c	17.5	3.8		9.2		19.8	5.2	1.3	9.9	1.0	2.4	
Finland .	1952	26.5	3.3	2.9	2.8	9.9	..	4.4	1.4	11.4	..	..	..
	1953	25.4	3.2	2.9	2.3	8.9	28.3	4.9	1.6	11.9	4.4	3.2	2.3
	1954	24.0	2.8	2.6	2.3	8.7	25.8	4.5	1.5	11.1	3.4	2.7	2.6
	1955	23.9	2.6	2.8	2.9	7.1	26.5	4.7	1.8	11.7	3.4	2.5	2.4
	1956	24.3	2.7	3.1	4.0	7.7	26.9	5.1	1.6	12.1	3.7	3.0	1.4
	1957 ^c	22.3	2.6	2.9	3.1	7.4	25.9	4.8	1.5	11.5	4.5	2.5	1.1
France ^b	1953	20.1	3.1	2.1		13.9	22.6	4.0	8.9	5.5	0.6	3.6	
	1954	19.8	2.9	1.9		13.9	21.1	4.2	7.1	6.0	0.5	3.3	
	1955	19.2	2.6	1.9		13.7	20.6	4.7	5.2	6.9	0.4	3.4	
	1956	19.9	2.8	2.2		13.7	22.8	4.8	6.6	7.9	0.4	3.1	
	1957 ^c	20.6	3.3	2.3		14.1	23.9	5.4	6.9	8.7	0.4	2.5	
Italy .	1953	17.0		3.9		10.1	22.9	9.1		7.0	0.7	1.9	4.2
	1954	16.6		3.6		10.4	20.4	9.2		7.0	0.7	0.8	2.7
	1955	17.0		3.5		10.7	20.4	9.1		7.1	0.7	0.7	2.8
	1956	18.3		3.9		11.5	20.7	9.2		7.6	0.7	0.7	2.5
	1957	18.0		4.2		11.0	19.6	9.2		6.9	0.6	0.4	2.5
Netherlands ^b	1952	23.7		10.7		9.6	23.7	5.9	5.3	6.7	0.5	5.3	
	1953	22.6		10.7		9.2	24.7	6.1	5.3	7.2	0.4	5.7	
	1954	20.9		9.5		9.3	24.4	6.1	5.7	6.6	0.3	5.7	
	1955	20.8		9.7		8.9	24.7	6.4	5.6	5.9	0.9	5.9	
	1956	20.6		10.3		8.9	24.2	6.9	5.5	6.2	1.3	4.3	
	1957 ^c	20.9		11.1		8.7	24.4	7.6	5.1	6.5	1.0	4.2	
Norway .	1952	22.8		6.5	1.6	10.6	23.4	3.0	4.0	10.6	1.8	4.0	
	1953	22.3		6.5	1.5	10.9	22.9	3.3	4.7	11.2	2.2	1.5	
	1954	21.9		5.8	1.7	10.7	22.2	3.3	4.7	11.5	1.9	0.8	
	1955	21.8		5.8	1.5	10.8	21.9	3.2	3.8	11.5	1.8	1.6	
	1956 ^d	22.1		5.9	1.4	10.8	22.2	3.4	3.6	11.6	1.7	1.9	
	1957 ^d	22.5		5.8	1.5	11.4	22.5	3.4	3.5	11.9	1.9	1.8	
Sweden .	1952/53	20.0		11.5	1.0	5.3	20.2	3.4	5.0	6.5	3.4	1.4	0.5
	1953/54	19.2		10.3	1.1	5.9	20.7	3.4	5.1	7.1	3.4	1.5	0.2
	1954/55	19.2		9.7	1.2	6.2	20.9	3.3	5.1	7.3	2.9	2.1	0.2
	1955/56	20.9		11.0	1.2	6.8	21.0	3.3	5.0	7.3	2.9	2.1	0.4
	1956/57 ^d	20.8		11.0	1.3	6.7	20.8	3.3	5.0	7.8	2.8	1.7	0.2
	1957/58 ^c	22.2		11.3	1.3	7.6	22.5	3.8	4.9	8.4	2.8	2.0	0.6
United Kingdom .	1952	30.7	8.5	6.1		11.0	33.3	4.7	9.1	14.5	0.7	3.3	1.0
	1953	29.2	7.8	5.7		10.5	33.3	4.4	9.2	14.0	0.7	2.5	2.5
	1954	28.7	7.8	5.1		10.2	30.8	4.4	8.8	13.8	0.7	2.4	0.7
	1955	28.9	8.1	5.0		10.2	31.2	4.3	8.1	13.6	0.7	3.8	0.7
	1956	28.0	7.9	4.3		10.1	29.2	4.4	8.1	13.3	0.8	2.1	0.5
	1957 ^d	28.1		12.6		10.7	..	4.6	7.1	13.3	0.8	..	0.4

Sources and notes: See Appendix.

^a As explained in the sources and notes, the figures conform broadly to national accounting definitions; inter-country comparisons of levels of revenue and expenditure cannot, however, be made.

^b In Austria, France and the Netherlands, columns 4 and 5 show all indirect taxes.

^c Revised budget figures as percentage of estimated gross national product.

^d Provisional results.

period of rapid expansion ; but even a cursory investigation nevertheless reveals that central government budgets tended, in many cases, to exert an expansive or a neutral influence on total demand as a result of tax reductions, increases in income transfers and additions to loan-financed expenditure.

The movement of central government receipts and expenditure in relation to gross national product shown in Table 12 for eight countries suggests that receipts and expenditure remained surprisingly stable, or that in some cases both declined slightly, at a time when private expenditure and demand were rising rapidly.

The automatic rise in receipts following increases in economic activity, incomes and prices, made it easier to finance a high level of expenditure and, in many countries — such as the United Kingdom, the Netherlands, Austria and Finland — to cut taxes and reduce the total tax burden in the initial years of the boom : reductions which were not fully cancelled by subsequent increases in taxation. Rapidly rising receipts made it easy for governments to increase social expenditure and to adopt fiscal measures intended to stabilize prices and wages as in France, Italy, Sweden, Norway, Finland and Belgium. It also rendered possible the maintenance of a high level of public investment.

Budgetary policy thus played a role in stimulating expansion in the initial stages of the boom, and it was not appropriately used as a means of damping down expenditure at a time when excess demand was considered a fundamental problem. On the contrary, rising public demands on resources competed with the private sector of the economy.

The absence of over-all budgetary restrictions — either increases in taxation, checks to or reductions of outlay — meant that greater reliance had to be placed on monetary policy and that the burden of restriction was placed more heavily on private investment than was desirable or might otherwise have proved necessary. Moreover, where the financing of public investment was achieved to an increasing extent through calls on the capital market, this tended further to raise interest rates and restrain the private sector.

The rate of growth of private investment, which depends largely on expectations of future demand and prices, is being kept down by the direct and indirect effects of restrictive monetary policies; and, in many western European countries, the present situation is already characterized by the postponement or scaling-down of private investment plans. If this is allowed to continue, relaxation of credit restrictions alone will prove inadequate to create a more optimistic business climate, and consequently greater reliance will have to be placed on budgetary measures.

Any slowing-down of activity and incomes is reflected, after a time-lag, in receipts from taxes levied on declared incomes and profits and, more

immediately, in receipts from customs duties and indirect taxes. In general, an automatic emergence of a budget deficit following a decline in activity would act as a stimulating factor; and it is to be hoped that the absence of budgetary restraint at the end of the boom period has not dangerously increased the traditional reluctance of governments to maintain or even raise an already high rate of public expenditure at a time when it is feared that the level of budgetary receipts will not be maintained.

Many legal and institutional factors make it improbable that any substantial changes in budgetary policies can be expected during the course of the current financial year, except in the few countries where supplementary budgets can be introduced. Budgets already in force and existing budget proposals generally imply that expenditure will be about balanced by revenue in the traditional way. Except in Sweden, there is also little evidence so far that countries consider raising expenditure without being sure of a corresponding increase in revenue.

In this respect it is significant that it has been stated officially in some countries that the true problem is to put a brake on expenditure until such time as outlay is covered by revenue. This attitude is another expression of the wait-and-see policy already referred to, and also of the hope that a strong dose of disinflation may bring cost inflation to an end and induce a reversal of present price trends.

If, however, decisions to reverse the restrictive course are taken sufficiently rapidly and policies are appropriately co-ordinated both nationally and internationally, it seems likely that economic activity in western Europe will be easier to revive than in the United States. Although monetary restriction has started earlier in most western European countries than in the United States, economic activity has resisted better and longer and is nearer to capacity levels than in that country.

The longer-term expectations of the western European business community appear to be optimistic, in part on the basis of the economic expansion expected to follow the creation of the Common Market. In the short run, the deterioration of expectations has probably not gone far enough to render investors unresponsive to a relaxation of restrictions and to other government action to stimulate economic activity. The improvement of foreign exchange reserves in some countries, and the somewhat better distribution of those reserves, has removed one of the objections which could reasonably have been urged against measures to prevent any further slackening of the growth of aggregate demand. However, without co-operative action to improve international liquidity, governments may well be reluctant to stimulate any real acceleration of recent rates of growth.

6. PRODUCTION AND EMPLOYMENT IN EASTERN EUROPE AND THE SOVIET UNION

Industrial Output

The year appears to have started well in eastern European and Soviet industry. Data available on the first quarter's results indicate rates of over-all expansion in the Soviet Union, Bulgaria, Czechoslovakia, eastern Germany and Poland exceeding both those of a year ago and the rates assumed in the plans for the whole year 1958 (see Table 13).³¹ In Hungary, output appears to be rising steadily, on the basis of last year's good harvest and satisfactory supplies of fuel and energy and of imported materials, except in the metal-using industries where planned changes in the commodity-pattern of production have caused temporary difficulties.

In the Soviet Union, the 11 per cent increment over gross output in the first quarter of 1957 represented an excess of 4 per cent over the planned level. Two-thirds of this increment was derived from three groups of industries — engineering, building materials and fuel and power³² — where the quarter's outputs were respectively 14, 27 and 11 per cent higher than in the first quarter of 1957. It is precisely in the two last-named industries that last year's devolution of industrial management induced local self-sufficiency,³³ since the regional economic councils (sovnarkhozy) aim to secure coal and primary building materials from local deposits. The expansion of engineering output beyond that planned was also a notable feature of sovnarkhoz decisions in 1957 (a 14 per cent increment over 1956 was recorded, against a 10 per cent increment planned); and this readiness to expand seems to have sprung from cost comparisons among the plants inherited by the sovnarkhozy from the various engineering ministries and the metal-working shops inherited from other ministries, and from the scope for rationalization consequently revealed.

Mild weather has everywhere eased the strain on supplies of fuels and electric power and enabled production in the basic industries to proceed relatively

³¹ The speeding up of the rate of growth of output in the light and food industries in relation to the rate of expansion of heavy industry is a feature of current developments in Poland and of plans in Rumania. This must tend to impart some upward bias to the index numbers of over-all gross industrial output; nevertheless, the rate of over-all growth in Poland indicated in Table 13 is probably not greatly exaggerated in relation to past trends.

³² As no data have been published on the sector break-down of gross output, this computation used fixed capital and employment as weights (*Narodnoe Khozaystvo SSSR v 1956 godu*, pp. 39, 49). The first weighting gave the industries named 69 per cent of the total and the second weighting a 62 per cent share.

³³ These products have low values per ton (and are thus significantly transport-saving) and are exploitable in most areas (cf. SURVEY for 1957, Chapter I, p. 33).

TABLE 13

Indicators of industrial activity in eastern Europe and the Soviet Union

Percentage increase over same period of previous year

Country	1957	1957	1958	1958
	Year	First quarter	Plan for year	
Bulgaria				
Gross output	15	15	19	11½
of which :				
Coal	10	16	8	1
Electric power	11	10	12	11
Industrial employment	15 a	..	12	4½
Gross output per worker	0	..	6	7
Czechoslovakia				
Gross output	10	10	10½	8
of which :				
Coal	8	8	9½	8
Electric power	7	5	8	10
Industrial employment	4	4½	3	3
Gross output per worker	6	5	7½	5
Eastern Germany				
Gross output	7½	8	11½	7
of which :				
Centrally managed industries:				
Coal and energy	6	9	6	5
Mining and metallurgy	7	7	9	3
Chemicals	6	7	9	7
Heavy engineering	7	7	11	10½
General engineering	10	16	11	..
Light industry	6	1	9	7
Food industry	7	0	24	6
Gross output per worker	5	7	8	5
Hungary				
Gross output (state industry)	12	-18	..	7
of which :				
Coal	3	-29	37	14
Electric power	3	-26	44	20
Mineral oil	-44	-56½	11½	18
Poland				
Gross output	9½	10	11	7
of which :				
Coal	-1	-2½	4	-½
Electric power	8½	7	14	9½
Chemicals	17	19	17	13½
Building materials . . . . .	..	..	13	15
Light industry	8	..	9	..
Milk processing . . . . .	..	..	30	..
Industrial employment	4	..	3½	3
Gross output per worker	4½	..	7	4
Soviet Union				
Gross output	10	..	11	8
of which :				
Coal	8	..	9	6
Electric power	9	..	12	10
Oil	17	..	18	14
Building materials	23	..	27	..
Consumers' goods	8	..	8	6
Industrial employment	3	..	4	2
Gross output per worker	6½	..	7	5

Sources: Plan fulfilment reports, plans and statistical bulletins; *Rudé Právo*, 18 April, 6 June 1957 and 27 April, 5 May and 1 June 1958.

^a The Bulgarian Government has notified the secretariat of these figures, correcting estimates published in Table 8 of Chapter I of the SURVEY for 1957 which had been based on indications given in the Plan Fulfilment Report for 1957 (*Rabotnichesko Delo*, 28 January 1958).

undisturbed. In Hungary, coal production during January-March practically reached the rate planned for the year as a whole; and in Czechoslovakia also output has improved very considerably over the levels of a year ago, despite a marked fall in the contribution from Sunday-shift working, while transport difficulties also appear to have eased. Hard coal output in the first quarter was more than 5 per cent above the corresponding 1957 level — and much better than had been expected — in eastern Germany, though the infinitely more important brown-coal production appears to have lagged behind plan.

The improvements in coal production already noted last year in Poland seem to be continuing, with productivity very noticeably higher this year than last, though better weather may have played some part in this:

	First quarter		
	1956	1957	1958
Output per man-shift (in kg. per head of all employed) . . .	1,113	1,119	1,163

Some progress has been made in establishing a more "normal" and stable labour force, and employment of soldiers — already small — is expected to end this year. However, inadequate housing still remains the main obstacle to the stabilization of the labour force. Out of some 280,000 workers, 45,000 still live in the unpopular "workers' hotels" and 50,000 have to live at distances requiring transport to work.³⁴ The 1956-1960 Plan envisages the construction of miners' dwellings equivalent to 110,000 rooms during these five years; and this is expected to provide for the needs of the new permanent labour replacing the soldiers and for normal housing for the men now living in workers' hotels. However, it leaves no margin for improving the standards of existing housing.³⁵

In Hungary, special efforts to improve miners' housing resulted in one in ten of all miners being allocated a new house in 1957, which has been a factor in the evidently greater stabilization of the labour force.

Outside the fuel and energy sectors the pattern of development has varied from country to country. In eastern Germany the metal-using industries — among major sectors — have exhibited the greatest expansion over last year's level in the first quarter of 1958, when ample supplies of raw materials and intermediate goods contrasted with the stringencies of early 1957.³⁶

Moreover, the existence of an exceptionally large backlog of export orders and of the long-term investment programme for fuel and energy made it possible for enterprises to go ahead with production for these customers without waiting for approval of the yearly plan or for the contracts concluded at the Leipzig Fair.³⁷ In the past there seem to have been occasions when capacity was not fully used early in the year simply because production plans had not been approved or firm export orders had not been passed on to the enterprises.

Consumer-goods production is still rising rather less rapidly than the output of industry in general in the Soviet Union, though production of building materials is expanding particularly fast to meet the needs of the housing programme. In Poland, by contrast, food processing and light industry together showed greater increases over last year's output than did other sectors, largely reflecting the extraordinary rise in sales of foodstuffs off Polish farms.

Sector-plan Revisions in the Soviet Union

Three special plans for industrial sectors have been published in the Soviet Union: the most important (on 9 May) covered chemicals; another related to furniture (15 April), and another to children's clothes and footwear (20 March). The first, which appeared in the form of a resolution of the Party Central Committee, seems to be the first result of the work of the scientific sector commissions created by Gosplan to elaborate targets and capital needs for the 1959-65 Plan.³⁸ Its main theme was the need to develop synthetic substitutes for agricultural raw materials. Thus the resolution proposed that by 1965 the output of man-made fibres be 4.6 times the 1957 level, of plastics and artificial resins 8 times and of synthetic rubber 3.4 times. The use of these materials for consumers' goods (targets for which are also quoted) was particularly stressed, and the immense availabilities of mineral oil and natural gas were shown as one of the major inputs for the expanding industry. Output of standard industrial chemicals such as ammonia, sulphuric acid, caustic and calcined soda is also intended to increase substantially. The whole chemicals sector is to receive increased funds for investment and research, amounting to 100 billion roubles during 1958-1965.

The decrees on furniture and children's wear, which appeared as decisions jointly issued by the Govern-

³⁴ Fifteen thousand are transported daily from districts more than 30 km. from the pit.

³⁵ *Trybuna Ludu*, 29 April 1958.

³⁶ The very large increase in the output of the centrally-managed food industries in eastern Germany shown in Table 13 is almost entirely due to the processing of the very good sugar-beet crop of last year. Only a small fraction of all food industry is covered by the figures in the table.

³⁷ For the significance of the Leipzig Fair, see below. The annual plan was in fact ready this year earlier than in 1957 — in January instead of May.

³⁸ This seems to be borne out by the report by Mr. Khrushchev on the basis of which the resolution was taken (published in *Pravda*, 10 May 1958).

ment and the Party Central Committee, were of a much more short-term nature and seem to be first-aid measures for sectors where unsatisfied demand is particularly acute. The period covered is 1958-1960, and the measures envisaged include a rapid shift of investment funds. Enterprises manufacturing children's wear are to receive an additional 195 million roubles capital grant in 1958, and furniture factories are to have their total grant increased to 290 million roubles, rising to 1,315 million in 1960. The effect of such small shifts in capital (total state investment for 1958 is planned to exceed 200 billion roubles) is nevertheless considerable in output terms: by 1960, furniture output should be 65 per cent greater than in 1957, and in 1958 alone children's footwear, for example, should be 27 per cent above last year's level.

Employment

As can be seen from the data in Table 13, rising productivity is everywhere, except in Bulgaria, contributing more to the current growth of industrial output than does higher industrial employment. The changes in economic organization and management now being introduced in eastern Europe and in the Soviet Union³⁹ have as one of their main objectives the improvement of industrial efficiency in all forms, including that of labour productivity. However, the Polish Government has recently gone farther than any other country in taking direct measures to reduce redundancy in socialized industry.

The present over-staffing of many industrial enterprises in Poland, as elsewhere, has been brought about partly by the uneven flow of fuel and raw material supplies in the past and the relatively minor importance attached to production costs when measuring the success of an enterprise. This meant that enterprises tried to ensure fulfilment of their output plans by keeping on hand sufficient workers to deal rapidly with supplies when they became available, even if many of these workers were under-employed for much of the time.

At the same time, labour shortages exist in certain sectors and individual enterprises.⁴⁰ A resolution of the Polish Council of Ministers therefore recommended that managers and workers' councils should work out by 31 March plans for reducing over-staffing in their enterprises and should estimate the savings on the wages fund that would thus accrue: one-fifth of such savings will be earmarked to increase the wages of the remaining workers. Dismissals of redundant workers are to take place over the subse-

quent five months, and new engagements will in future require the consent of employment offices.

A number of measures to mitigate the individual hardship involved are being taken. Both the worker's qualifications and whether or not he possesses any other source of income are to be taken into account in deciding upon dismissals; people's councils (local authorities) have been given new responsibilities for matching lists of unemployed workers and of vacancies; the special emergency fund, at the disposal of the authorities of small towns for providing new employment opportunities, is to be increased and a rise in old-age pensions—in general payable only on retirement⁴¹—from 1 July 1958 will encourage some elderly people to give up regular work, while regulations limiting juvenile employment and setting technical qualifications for certain posts are to be more strictly enforced.

It is estimated that about 200,000 people, of whom 60,000 are old age pensioners now in employment, will be "released" from the socialized sector of employment (out of a total of 7 million) by 1 August.⁴² This is a substantial figure in relation to the present numbers of registered unemployed and of advertised vacancies (in thousands):

	1957	1958	1957	1958
	Totals		Women only	
Registered unemployed in				
February	62.6	55.7	40.5	37.9
Registered vacancies in				
February	102.0	104.4	33.3	38.2

Other measures aiming at an improvement in labour discipline and productivity include a variety of new restrictions on the abuse of social security benefits.

Elsewhere, employment problems are of the same rather specific nature as in the past. Certain types of university and secondary school graduates, administrative workers and women seeking work which can be combined with care of a family generally present the main employment difficulties. In Hungary, specially subsidized posts as trainees for certain classes of graduates from secondary schools and universities are to be provided, as in 1957. In Czechoslovakia, the reorganization of industrial management now being introduced is expected to reduce ministerial staffs by 8,000 and other central administrative staffs by 29,000. Alternative posts at similar levels of responsibility are stated to be available—but outside the capital—and housing scarcities add to the personal difficulties involved in many of the necessary transfers.

³⁹ See the SURVEY for 1957, Chapter I, Section 6, and below.

⁴⁰ For a more detailed description of past developments, see the SURVEY for 1957, Chapter VII, "Manpower and Employment in Eastern Europe and the Soviet Union".

⁴¹ A considerable number of exceptions to what was originally intended to be an invariable rule have already been made.

⁴² The net decrease in the labour force in the socialized sector is expected to be about 120,000 people (*Trybuna Ludu*, 20 May 1958).

Moreover, it seems that certain non-economic considerations may enter into the selection of "redundant" individuals for dismissal. Discrimination against "those who do not fit into our administrative apparatus because they are not part of the working class" has been urged in newspaper articles; and it has been stated that circulars sent to factories and administrative bodies list the following categories of people who should be dismissed first when staffs are cut down: former professional people and factory, business and workshop owners, pensioners re-employed at a time of labour shortage, married women whose husbands are working and people holding two jobs.⁴³

Agricultural Output

The very rapid growth of farm sales of agricultural produce in Poland has continued into the early months of 1958:

Sales off farms ^a	First quarter			
	1957 Actual	1958 Plan	1958 Actual	Percentage increase 1957-1958
Pork (thousands of tons live weight)	228 ^b	..	385 ^b	69 ^b
Milk (millions of litres) . .	547	581	728	33
Eggs (millions)	402	261	301	-25

Sources: *Zycie Gospodarcze*, No. 16, 1958, and *Trybuna Ludu*, 9 May 1958

^a Excluding direct sales to consumers.

^b January-April.

The capacity of the food-processing industries is already showing signs of inability to deal with the rising flood — of milk and meat in particular — and cold storage capacity is now fully utilized. Exports of butter have already exceeded the original export plan for the whole year, and additional contracts have been made. Encouragement to meat production is being directed particularly towards improvements in quality, and the increases in farm prices of meat this year — ranging from 20 to 45 per cent — include special premia for quality.

In Bulgaria also, deliveries of most agricultural products in the first quarter were well above planned levels — by margins of between 10 and 40 per cent in most cases — and above those of the same period of last year.

Milk deliveries seem to have been well above the corresponding 1957 levels in all countries for which data for the first quarter exist. There were increases

of 21 per cent in eastern Germany and 7 per cent in Czechoslovakia as well as above-plan deliveries in Bulgaria. Better weather and better fodder supplies following last year's good harvests have probably contributed to these results in most countries, as well as to the generally fairly good supplies of meat — though not on the Polish scale. In Czechoslovakia, which provided an exception to the general record of good harvests last year, heavy slaughterings of cattle helped to maintain the combined total of beef and pork deliveries at about the same level as in the first quarter of 1957.

It is too early to assess the prospects for the year as a whole in any country. Weather conditions have generally been rather unfavourable for spring sowings, which are everywhere reported to have been delayed, and in Poland flood damage has been severe over about 30,000 ha. of land in the Narew-Bug basin. However, none of these difficulties and losses have been such as by themselves to rule out the possibility of another good year. A special factor making for uncertainty in Czechoslovakia is the vigorous collectivization drive which is still being pursued and which may well have some short-term disorganizing effects on output.⁴⁴ In the Soviet Union, on the other hand, the authorities are confident that the dispersion of equipment from the machine and tractor stations (MTS) to the farms will even in the very short run lead to a more efficient execution of field work.

In Hungary and Poland, the authorities face some conflict between two major aims — to encourage the further growth of agricultural output and to limit, in the interests of over-all economic stability, the rate of growth of personal incomes, including those of the farm population. The farm price increases already conceded for meat in Poland have been mentioned above. In Hungary, by contrast, the major price change so far this year has been a reduction in pig prices of about 10 per cent, with some differentiation in favour of meat rather than lard production. More positive measures to encourage a further agricultural expansion have, however, been taken in Bulgaria, where a considerable number of price increases have been announced as coming into effect on 1 January 1959, while compulsory deliveries have been abolished for sunflower seeds, pigs, lambs and (for co-operative farms only) wool.

⁴⁴ See the SURVEY for 1957, Chapter I, p. 8. Another 560 co-operative farms have been added during January-April to the 11,090 existing at the end of 1957.

⁴³ See *Rudé Právo*, 29 January and 2 and 14 February 1958.

7. CONSUMPTION TRENDS AND FOREIGN TRADE DEVELOPMENTS IN EASTERN EUROPE

Consumers' Incomes and Retail Trade

As was noted in the last SURVEY, 1958 was generally intended to be a year of relative stability of consumers' money and real incomes after the large increases registered in most countries in 1957;⁴⁵ and in Hungary and Poland, in particular, the need in 1958 to do without all but a fraction of the substantial support provided by external credits last year⁴⁶ is estimated to require a virtual stabilization of consumption at the level reached at the end of 1957. In Hungary, the 1958 Plan provides for an average level of real wages only 4½ per cent above that of the previous year and for no rise in real farm income (as compared with increases of 16 per cent and 10 per cent respectively in 1957). In Poland, increases of 4 per cent over the 1957 level in money wages and of a similar amount in the real net incomes of peasants were estimated to be all that the economy could afford this year,⁴⁷ as compared with a rise of more than 12 per cent in real personal incomes in 1957. In eastern Germany also the planned rise in personal expenditure above the 1957 level in 1958 is of the order of 4 per cent, though the growth of personal income is expected to be less (3 per cent, as compared with 9 per cent last year), and personal saving out of currently generated income is expected to be reduced.

These plans virtually imply a "wage stop" at the levels reached by the end of 1957 in all three countries, though in Poland some relief has been promised to a few categories of workers who benefited little if at all from the wage increases of 1956 and 1957 and who may well have suffered net losses of real income as a result of last year's price rises.

In all three countries the growth of aggregate personal incomes has in fact been levelling off, though naturally the absolute levels in the early part of this year have been much higher than in the corresponding months of 1957. In general, the only increases in incomes so far during 1958 have been those arising from profit distributions out of enterprise funds (in Poland and Hungary) and from still growing farm sales in Poland. Even these increases may have been to some extent offset in Poland by greater difficulty in earning incomes on the side, as a consequence of the reforms of management practices and of enterprise incentives introduced last year. Moreover, participation in profits distribution has been by no means uniform for all workers.

⁴⁵ See the SURVEY for 1957, Chapter I, section 4.

⁴⁶ A balance-of-payments deficit financed mainly by foreign credits added about 6 per cent to domestically produced resources in both Hungary and Poland in 1957.

⁴⁷ Report of Mr. Jedrychowski to the Central Committee of the Workers' Party (*Trybuna Ludu*, 28 February 1958).

In Hungary, the total distribution (which took place at the beginning of April) amounted to the equivalent of about one and a half weeks' normal wage bill. Data released on the amount of profits for distribution *before deduction of contributions to enterprise funds* show very wide variations between sectors and branches. The averages for major sectors (in terms of equivalent daily-wage units) were as follows:

Mining	11
Electric power	17
Chemicals	16
Building materials	15
Metal-making and metal-using	15
Light industry	17
Food industry	10
Local industry	10
Building and construction	10
MTS	8
State farms	6

However, within the metal-making and metal-using sector, for example, enterprises in the general engineering branch had on the average profits equivalent to eight and a half days' wages for distribution, as compared with twenty in the iron and steel industry: within the chemicals sector, the equivalent of 25 days' wages was available in the pharmaceutical branch.⁴⁸

Distributions are taking place during April and May in Poland, and less is known of the results, though once again it is clear that there are wide variations between branches of industry and between enterprises within each branch. Moreover, the principles followed in determining the distribution between different categories of workers clearly vary considerably from one enterprise to another. The total amount available for distribution to the workers is about 3,000 million zloty, or the equivalent of about 3 per cent of the total wage fund for the year.

The generally favourable development of output of food and other consumers' goods, already mentioned above, has enabled retail sales to be maintained at a rate well above that of a year ago (see Table 14). Even in Poland and Hungary, where pressures in the market for consumers' goods were strongest last year, stability seems to have been at least temporarily restored, and a substantial building up of retail stocks in both countries continued in the first quarter of 1958.⁴⁹ A crucial question now for both of them is whether the encouraging growth of output and productivity of the recent past can be maintained up to

⁴⁸ See *Népszabadság*, 29 March and 1 April 1958.

⁴⁹ In Poland, the tendency for much of the increase in the incomes of farmers to be spent on building materials and other farm supplies, rather than on consumption, has been an important stabilizing factor.

TABLE 14
Retail trade turnover (including
public catering) in eastern Europe and the
Soviet Union

Percentage increase over same period of previous year

A: In current prices.

B: In constant prices where price changes
are known to have been significant.

	1957		1958				1958	
	Year		First quarter				Plan for year	
	A	B	A	B	A	B	A	B
Bulgaria . . . . .	..	9	..	14	..	14	10	..
Czechoslovakia . . .	5	8	3	..	5 ^a	..	4	..
Eastern Germany . . .	7	..	4	..	7	..	6	..
Hungary ^b	9	4	9	9	8	1	6½	4
Poland	24	14	24½	..	10	..	9	7
Rumania ^c	13½	..	..	..	..	..	12	..
Soviet Union ^d . . .	14	..	..	..	7	..	7	..

Sources: Plans and plan fulfilment reports; statistical yearbooks and bulletins, *Pravda*, 17 April 1958.

NOTE.—For comparison with 1955 and 1956, see *Economic Survey of Europe in 1957*, Chapter I, Table 17.

^a First two months.

^b Private trade based on central stocks is included. Other private trade greatly increased in 1957.

^c Socialist trade only, which accounted for 97 per cent of sales in Rumania in 1956.

^d Excluding commission trade in co-operative shops.

the moment—some time in 1959 or 1960—when a significant new expansion of consumption is expected to become possible, despite the inevitably disheartening effect on workers of a halt to the growth of their incomes this year.

Rumania seems to be practically the only country of the region planning for a growth of consumption in 1958 which is both as great as in 1957 and high in absolute terms. Total personal money incomes (gross) are expected to rise by some 13 per cent over the 1957 level this year, or by only slightly less than the 15 per cent rise recorded for 1957.⁵⁰ How this increase is expected to be met is not entirely clear. It seems to be assumed, optimistically, that the extraordinarily good harvests of 1957 will recur this year. There are indications that the level of accumulation may again be reduced, since reductions in state investment and in stocks are definitely planned, and production of consumers' goods is expected for the first time to rise faster (by 11 per cent over the 1957 level) than over-all industrial output (rising by 8 per cent). Moreover, imports of consumers' goods are expected

⁵⁰ Statistics which have become available since the last SURVEY was published show that, contrary to the provisional indications there quoted (Chapter I, p. 23), the increase in money incomes in Rumania in 1957 was above the level originally planned. No indication has yet been given of the corresponding change in real incomes.

to increase within a very strictly limited total import bill. It is also hoped that growing expenditure on services and higher personal saving will absorb some part of the rise in incomes; but these can hardly as yet be significant factors in Rumania.

Widespread cuts in retail prices recently decreed in Albania,⁵¹ indicate a rise in consumers' real incomes this year in that country. The price reduction is estimated to amount to the equivalent over a whole year of 1.3 billion leks on a retail trade turnover which in 1958 should exceed 18.7 billion, and this implies an average cut of some 7 per cent in shop prices. Elsewhere official price changes seem to have been slight. Seasonal price reductions of nearly 10 per cent for butter and between 10 and 20 per cent for cheese have been announced in Poland, while Czechoslovakia has followed the earlier example of the Soviet Union and several eastern European countries in raising prices of spirits, and has reduced the price of milk.

Foreign Trade

The reduction in foreign credits available to Poland and Hungary this year implies in Hungary a rise in total disposable national income of only 2 per cent and a virtual stabilization of both domestic fixed investment and consumption. The Polish authorities expect to dispose of a rather greater increase (4 per cent) in resources for domestic use than will be possible in Hungary, but most of the increase will go to investment, and the same is true of eastern Germany. However, these plans imply not only "austerity" policies at home, but also great efforts to expand exports by more than one-fifth above the 1957 rate in Hungary, by 2½ per cent in value but much more in volume⁵² in Poland, and at a fairly rapid rate in eastern Germany and Czechoslovakia (see Table 15). In Albania, however, foreign credits are to rise to 2.8 billion leks in 1958, as compared with 1.4 billion last year.

The reduction in Hungarian imports is expected to fall mainly on fuels and basic materials, as home production rises, and also on grains and fats, which can be replaced from domestic sources as a result of last year's good harvest. Special efforts are also being made to stimulate production of manufactured consumers' goods which would replace imports.⁵³ The rise in exports is expected to be fairly equally divided

⁵¹ *Bashkimi*, 29 April 1958.

⁵² The Plan for 1956-1960 implied a rise in the volume of Polish exports by 7 per cent in 1958 above the 1957 level.

⁵³ The Ministry of Foreign Trade recently organized, with the industrial ministries, an exhibition of imported manufactured goods which home producers were invited to make offers to replace. Of 700 goods scheduled for substitution, offers were made to produce 220. Five per cent of these offers came from state enterprises and 95 per cent from small firms (*Népszabadság*, 15 April 1958).

TABLE 15

Foreign trade of four eastern European countries

	1956	1957	1958 Plan	1957	1958 Plan
	Millions of current dollars			Percentage change from previous year	
Czechoslovakia					
Imports	1 186	1 385	<i>a</i>	+17	<i>a</i>
Exports	1 387	1 356	<i>a</i>	-2	<i>a</i>
Trade balance . . .	+201	-29	<i>a</i>		
Eastern Germany					
Imports	1 334	1 613	<i>b</i>	+21	<i>b</i>
Exports	1 407	1 820	<i>b</i>	+29	<i>b</i>
Trade balance . . .	+73	+207	..		
Hungary					
Imports	456	665	562	+46	-15
Exports	493	497	605	+1	+22
Trade balance . . .	+37	-168	+43		
Poland					
Imports	1 022	1 244	1 175	+22	-6
Exports	985	982	1 006	0	+2
Trade balance . . .	-37	-262	-169		

Sources: Plans and plan fulfilment reports; *Statistické Zprávy*, No. 3, 1958; *Statistikai havi Közlemények*, No. 1, 1957, p. 62; No. 1, 1958, p. 39; *Népszabadság*, 2 February 1958, 20 April 1958; *Trybuna Ludu*, 19 April 1957 and 24 January 1958.

NOTE.—For comparison, see *Economic Survey of Europe in 1957*, Chapter VI, p. 23, Table 17.

a Turnover is to increase, and the visible trade deficit is to be eliminated.

b Total turnover is to be increased by 7 per cent over that of 1957.

between manufactured goods on the one hand and food and raw materials on the other. Contacts between foreign trade enterprises and domestic purchasing agencies and producers are being strengthened, and next year foreign trade agencies will be able to grant investment funds to producing enterprises up to a total of 100 million forints.

Little information is available on actual Hungarian trade in the early months of this year. Turnover rose well above that of the fourth quarter of 1957 (from 3.6 to 4.7 billion foreign-exchange forints), and both exports and imports seem to have been about 10 per cent above the planned level. An abrupt change over from an import surplus to a large export surplus is thus apparently to come later in the year. Meanwhile, the remainder of the emergency credits of 1957 seem to have been used partly to finance the first quarter's import surplus and partly to repay pre-October 1956 debts, particularly those due to western countries.⁵⁴

⁵⁴ The Minister of Finance has reported a repayment of "burdensome" foreign debt out of the proceeds of the Soviet and Chinese foreign exchange loans, which has contributed to the "normalization" of trade and credit relations with capitalist countries (*Népszabadság*, 18 April 1958).

In Poland also, credits left over from 1957 seem to have been used to permit a higher level of imports in the first quarter than may be possible later in the year, and during these months imports of consumers' goods from capitalist countries amounted to nearly 50 per cent of the plan for the year as a whole. Traditional Polish exports are already meeting strong competition in foreign markets, and the first quarter's plans for sales of coal and a wide range of raw materials and semi-manufactured goods were not fulfilled. Moreover, the terms of trade have worsened, though the only precise data available relate to one sector of trade only: as compared with the position in July 1957, prices of imported raw materials had fallen by 7 per cent by March 1958, whereas the average price level of exported raw materials had fallen by 17 per cent.

Looking farther ahead, a not inconsiderable part of Poland's export trade is very vulnerable to any further slackening of activity in "western" countries, which took about one-third of Polish exports in the recent past. A favourable factor in the situation, however, is the strong growth of agricultural output. This should make it possible to achieve, or even exceed, the planned rise of such exports — from \$114 million in 1957 to \$150 million in 1958 — while cutting down imports also. The direct impact of recession in "western" countries on this part of the trade (about one-fifth of all exports to such countries) is not likely to be great, though it is of course always at the hazard of their national farm policies.

The uncertainty of this year's export prospects for Poland tends to reinforce the doubts, which arise also on other grounds, whether the stabilization or even reduction of net outstanding foreign debt which seems to be planned should be regarded as an absolute priority in the near future.

However, eastern Germany and, to an even greater extent, Czechoslovakia are the two countries whose export trade with the "western" world — with a large share of finished goods, including engineering products — is likely to be most affected by any further slackening of activity in those countries; and Czechoslovakia's dependence on such trade is greater than that of any other eastern European country. In Czechoslovakia the plan for engineering exports to all destinations (40 per cent of the total) was underfulfilled by 25 per cent in 1957, while eastern Germany's trade expanded quickly, but achievements at the beginning of this year are not as yet known. One indication that expansion may be proving difficult is the continuation into the first quarter of this year of the Czechoslovak trade deficit. In the first quarter of 1958, eastern German exports to capitalist countries showed no increase over those of a year earlier, while imports from these countries were substantially higher. But, on the other hand, orders from "western"

markets booked at the Leipzig Fair showed a greater increase over the 1957 level than did those from "eastern" markets.

The reliance of eastern German export industries on the orders booked at the Leipzig Fairs seems to be quite extraordinary, even if allowance is made for the fact that some orders recorded may subsequently be cancelled and that in many instances the signature of firm contracts at the Fair is the culmination of negotiations started in other ways (see Table 16). This year the Fair was prepared with particular care; and as a shop window for "western" buyers it is gradually increasing in importance, both absolutely and relatively, as long-term contracts for eastern German exports to "eastern" markets begin to cover a greater share of that trade.

The Brno engineering exhibition is clearly of much less importance for Czechoslovak exports than is Leipzig for eastern Germany, but it has nevertheless grown steadily in extent and significance. Few data on the results of other trade fairs in eastern European countries are available, but clearly both the Poznan and the Plovdiv fair are regarded as giving useful results, and the Budapest Industrial Fair has been increased in area by one-half this year. Rapidly growing participation in foreign countries' trade fairs is a feature of current trade policies throughout eastern Europe; and such participation is reported to have yielded Kčs 750 million (\$104 million) of export orders to Czechoslovak industry last year.⁵⁵

In all these countries, moreover, the current discussions and action on changes in economic organization and management give considerable attention to the

⁵⁵ *Zahraníční Obchod*, No. 1, 1958, p. 32.

8. ECONOMIC MANAGEMENT AND FINANCING IN EASTERN EUROPE AND THE SOVIET UNION

Planning and Management in Eastern Germany

Discussions, and gradual introduction, of changes in systems of economic organization and management continue in eastern Europe and the Soviet Union on the lines already described in the last SURVEY,⁵⁶ and implementation has gone particularly far in Czechoslovakia. One major development so far this year is the adoption of the law on the improvement and simplification of the state apparatus in eastern

⁵⁶ See the SURVEY for 1957, Chapter I, section 6. The devolution of industrial management has been taken a stage farther in the USSR by the transfer of central marketing agencies from the All-Union Gosplan to Union-Republican Gosplans and to sovnarkhozy. To enforce centrally set supply plans, a decree of 24 April makes officials responsible for failing to effect deliveries to other sovnarkhozy personally liable to criminal prosecution.

TABLE 16
International fairs in eastern Germany,
Czechoslovakia and Poland

Town and date	Total number of exhibitors	Number of visitors from abroad (Thousands)	Export orders booked (Million dollars)	Percentage of total annual exports
LEIPZIG				
March 1956 . . . .	..	..	729	51.8
March 1957	9 168	42	836 ^a	47.5
September 1957 . . .	7 145	26	363 ^a	20.6
March 1958	9 669	43	865 ^a	46.4
BRNO				
Sept. 1955 (First engineering exhibition).	..	2	9	1.8 ^b
Sept. 1956 (Second engineering exhibition)	3 000	8	28 ½	5.1 ^b
Sept. 1957 (Third engineering exhibition) .	4 000	8	57	10.3 ^b
POZNAN				
June 1957	2 550 ^c	5	112	11.4

Sources : Leipzig: *Der Aussenhandel*, Berlin, No. 6, 1957, p. 227; *Neues Deutschland*, No. 12, March 1958. Brno: *Czechoslovak Economic Bulletin*, No. 315, 1956 and Nos. 9 and 11, 1957; *Zahraníční Obchod*, No. 10, 1957, p. 439; *Handel Zagraniczny*, Nos. 6 and 7, 1957.

^a Of which 74 per cent in March 1957, 50 per cent in September 1957 and 72 per cent in March 1958 from eastern markets.

^b Percentage of engineering exports only.

^c Excluding exhibitors from the socialist countries.

need to improve export sales methods and contacts between the domestic producer and the foreign buyer. It is probably in this field that the best hopes of a successful export drive lie.

Germany. As was noted in the summary of the main changes in organization given in the SURVEY, the principal purpose of the reorganization appears to be to increase the effectiveness of central planning and control of all but minor economic activities.⁵⁷ With the dissolution of most of the industrial ministries, this central responsibility is now concentrated in the hands of the State Planning Commission. The Commission exercises its overriding control through two distinct lines of subordination. One leads through the associations of industrial enterprises (Vereinigungen volkseigenen Betriebe—VVB) to the most important industrial enterprises, and the second

⁵⁷ According to a member of the State Planning Commission, "the basic principle should be centralization in basic issues and decentralization in day-to-day questions". (*Die Wirtschaft*, 8 May 1958.)

through the fifteen regional economic councils (Wirtschaftsräte) and their subsidiary district Planning Commissions (ten to twenty-five to each region) to the enterprises subordinated to the regions and districts.

Concurrently with these changes in organization, certain changes in planning techniques are also being introduced. The essential feature of the new system appears to be an attempt, at every stage of the elaboration of the annual plan, to work in terms both of gross output in physical quantities or volume and of final commodity output and the main income and expenditure flows in current prices. The new procedures seem, in fact, to have something in common with those used in some western European countries as part of the process leading to the elaboration of the annual budget — an attempt first to project the main items in the national income and expenditure accounts, on the assumption of no changes in taxation, credit policies, etc., in such a way as to reveal the probable “inflationary or deflationary gap” which the budget is then designed to close. The main differences between this process and that now introduced in eastern Germany are, first, the much greater importance attached in the latter country to individual sector balances and, secondly, that centrally made projections of the main aggregates will be carefully checked against the detailed estimates of potential development coming up through the enterprise-industrial association, or enterprise-district-region, chain.

According to the new directives, the first stage of elaboration of the annual Plan is the establishment by the Planning Commission of estimates in volume terms of (a) gross national product and net national income by sectors of origin, (b) receipts and expenditure of the state and (c) income and expenditure of the population. Simultaneously, the Ministry of Finance produces its own estimates of (a) the distribution of net national expenditure, (b) the state budget, (c) the credit plan and (d) income and expenditure of the population, incorporating such adjustments of, for example, credit flows, taxes or consumers' prices as seem likely at this first stage to be desirable or necessary for an over-all balance in the economy.

On the basis of the tentative balances thus established, the main indicators of commodity output, allocation of investment funds, etc., are handed down to the VVB and Economic Councils, and by them to the enterprises. These in turn send back through the chain their enterprise proposals covering values of final commodity output, profits, turnover tax yields, stock changes and needs for circulating capital. On this basis the Planning Commission and the Ministry of Finance prepare the final plan and budget.

The State Planning Commission also elaborates an extensive system of material balances for the major

products on the basis of which the actual distribution of supplies is supervised by nine central distribution offices (*Kontore*) replacing the former supply departments of the ministries. However, actual trading is arranged directly between enterprises and from one VVB or district council to another.

Bulgaria

The general tendency to delegate more responsibility to the enterprise level is now manifest in Bulgaria also, with the publication of a decree⁵⁸ giving enterprise directors more scope to participate in the drawing-up of plans, greater independence in the use of depreciation and other funds of their enterprises and some voice in the setting of norms and of individual wage rates.

The Reorganization of the Machine and Tractor Stations (MTS) in the Soviet Union

With the enactment by the Supreme Soviet on 31 March 1958 of the law on MTS reorganization, the process of selling the equipment of the MTS to collective farms and of transforming the former into repair-technical stations (RTS) is now under way.⁵⁹ The principle being followed is that each farm should take over both the equipment and the former MTS employees who have in the past worked for that particular farm;⁶⁰ thereafter it can buy new equipment (and other farm supplies) as needed, through the RTS. Rules for valuing the old equipment now on sale have been laid down in detail, as have procedures to guard against exploitation either of buyers or of sellers.

Arrangements are being made to minimize the disadvantage to the poorer farms which cannot afford immediately to buy the equipment available. Such farms may pay for equipment taken over from the MTS over two or three years, or even over a period up to five years; nevertheless, they seem likely to be at a disadvantage as compared with the richer farms in obtaining a share of the new equipment coming forward from current and future production unless the new provisions for increased farm credit cover their needs in this field also. Short-term credit provided to collective farms by the State Bank alone is expected to amount to some 25 billion roubles this year⁶¹ against 15 billion roubles in 1957. At the same time, collective farms are being urged to allocate a larger

⁵⁸ *Rabotnichesko Delo*, 1 April 1958.

⁵⁹ See the *SURVEY* for 1957, Chapter I, pp. 9 and 10.

⁶⁰ The former MTS employees will become full members of the collective, with a right to hold individual plots of land on the same basis as other members, etc. House-building credits formerly available to MTS members are extended to MTS transferees (7,000 roubles per house, repayable over seven years).

⁶¹ *Pravda*, 26 March 1958.

TABLE
Public accounts of
Billions of national

	Albania			Bulgaria			Czechoslovakia ^a		
	1957		1958	1957		1958	1957		1958
	Budget estimates	Provisional results	Budget estimates	Budget estimates	Provisional results	Budget estimates	Budget estimates	Provisional results	Budget estimates
<i>Expenditure</i>									
National economy	9.1	9.3	16.7	10.4	10.7	11.0	53.2	37.4 *	45.3
<i>of which :</i>									
Investment . . . . .	..	..	..	3.6	3.6	2.3	25.1	24.0	26.9
Agricultural development	1.2	1.3	3.1	2.8	2.8	2.9	10.3	9.5	10.5
Other economic expenditure . . . . .	..	..	..	4.0	4.3	5.8	17.8	3.9	7.9
Welfare	2.8	3.0	5.2	4.4	4.5	4.9	31.9	35.2	36.9
Defence	1.0	1.6	2.1	1.5	1.5	1.7	9.3	9.3	8.9
Administration	0.6	0.6	0.7	0.7	0.7	0.7	3.5	3.5 *	3.4
Other expenditure	1.5	1.1	1.4	1.4	1.4	1.4	—	—	—
Total	14.9	15.6	26.2	18.4	18.8	19.7	97.9	85.4	94.5
<i>Receipts</i>									
Turnover tax	9.1	10.1	11.4	6.8	7.0	7.3	44.4	47.1	49.8
Receipts from profits of state enterprises	2.0	2.3	1.6	2.1	2.0	2.5	17.8	9.1 *	13.4 *
Direct taxes	1.0	1.0	0.9	1.2	2.1	2.2	10.7	10.8	11.3
Social insurance premia	2.9	4.3	12.8 *	8.4	1.4	1.7	16.0	16.6	17.6
Other receipts					6.5	6.1	9.3	2.5	2.6
Total	15.0	17.7	26.7	18.5	19.0	19.8	98.2	86.1	94.7
<i>of which : Total receipts from socialist sector</i>	13.3	14.9	21.8	..	16.8	17.7	85.1	72.7	80.4
<i>Surplus of receipts over expenditure . .</i>	0.1	2.1	0.5	0.1	0.2	0.1	0.3	0.7	0.2

Sources. — Albania: *Ekonomia Popullore*, No. 2, 1958; Bulgaria: *Statisticheski Godishnik*, 1956 and *Rabotnichesko Delo*, 13 to 16 March 1957 and 4 February 1958; Czechoslovakia: *Rudé Právo*, 18 April 1957 and 16 April 1958; Eastern Germany: *Neues Deutschland*, 30 April 1957; *Deutsche Finanzwirtschaft*, Nos. 3 and 4, 1958; Hungary: *Népszabadság* and *Népakarat*, 4 June 1957; *Magyar Közlöny*, 9 June 1957, *Népszabadság*, 28 January and 7 to 20 April 1958; Poland: *Trybuna Ludu*, 11 March 1957 and 22 January 1958; Rumania: *Schitela*, 22 and 23 March, 28 and 29 December 1957 and *Buletin statistic trimestrial*, No. 3, 1957.

NOTE. — For a comparison with earlier years, see *Economic Bulletin for Europe*, Vol. 9, No. 1, Table 18, p. 34. For Albania, the subsidies included in that table under "Other expenditure" in 1956 (budget) have in the present table been classified under "National economy". Moreover, the "trade differential" (profit on imports of consumers' goods sold at retail) is combined with turnover tax in the present table, whereas in last year's table it was possible to show turnover tax receipts separately. The classification "deductions from profits" has also been given a wider coverage, and the figure given is not comparable with those quoted previously under this head.

share of future income to their non-distributed funds so as to raise the rate of investment in machinery, farm buildings, schools, etc.

Over the country as a whole, allocations to non-distributed funds in 1958 alone are expected to be greater than the value of all the MTS machinery to be sold (25 billion roubles, against 20 billion). In the more prosperous areas, farms are clearly having no difficulty in buying the equipment available, and in some areas the sales are already completed. The 305 collective farms of the Nikolaev oblast in the Ukraine have already taken over, and paid for, nearly 90 per cent of the former MTS machinery, though refusing some types of tractor and some equipment — excavating machinery, repair workshops, etc. — which no single farm could in any case use economically. In contrast, only 300 of the 3,950 collective

farms of the Byelorussian Republic are expected to be able to pay in full this year for the machinery they are taking over, and 2,600 expect to pay for it over two or three years.⁶²

The 1958 Budgets in Eastern Europe ⁶³

In most eastern European countries an attempt to limit the growth of consumers' real incomes this year to a rate considerably below the generally rapid increases of 1957 is a characteristic of the economic policies of 1958. But such policies do not find an identical reflection from one country to another in the budget data, since differences in price changes or

⁶² *Pravda*, 30 March 1958.

⁶³ A summary of the public accounts of the Soviet Union was published in the *SURVEY* for 1957, Table XXXIX, p. A-68.

17

eastern European countries

currencies at current prices

Eastern Germany ^b			Hungary		Poland		Rumania			
1957		1958	1957	1958	1957	1958	1957		1958	
Budget estimates	Provisional results	Budget estimates	Budget estimates		Budget estimates		Budget estimates	Provisional results	Budget estimates	
..	..	..	33.7	25.2	75.0	85.0	23.9	25.0	26.5	<i>Expenditure</i>
5.3	.. ^e	5.4	5.0	6.3	35.0	..	8.9	..	9.9	National economy
..	2.2	2.9	..	1.0	14.8	..	..	..	..	of which :
..	..	..	..	17.9	25.2	..	..	..	..	Investment
14.2	14.0	14.3	12.6	14.2	40.1	44.6	10.5	10.6	11.3	Agricultural development
1.0	..	1.0	3.9	6.2	10.2	12.5	3.7	..	3.7	Other economic expenditure
2.6	..	2.6	1.7	3.1 ^d	10.2	5.8	1.5	..	1.4	Welfare
..	..	..	—	3.3	10.2	5.6	5.6	..	4.3	Defence
39.1	37.5	40.1	51.9	48.7	138.8	158.1	45.2	43.7	47.2	Administration
19.7	18.6	21.0	36.2	37.3	102.3	116.2	16.5	16.9	16.9	Other expenditure
4.0	4.0	4.2	5.1	5.6	13.6 ^f	18.2 ^f	8.3	..	10.5	Total
5.9	..	6.1	11.4	1.4	17.6	19.5	4.2	..	4.4	<i>Receipts</i>
9.5	..	8.8	5.5	6.8	6.4	14.7	2.4	..	2.8	Turnover tax
39.1	37.5	40.1	52.7	49.8	140.3	160.3	46.1	45.0	48.0	Receipts from profits of state enterprises
22.6	21.9	25.0	38.2	39.4	102.3	116.2	..	..	..	Direct taxes
0.0	0.0	0.0	0.8	1.1	1.5	2.2	0.9	1.3	0.8	Social insurance premia
										Other receipts
										Total
										of which : Total receipts from socialist sector
										Surplus of receipts over expenditure

^a Budget estimates in 1957 are given in 1957 prices; provisional results in 1957, as well as budget estimates in 1958, are given in comparable 1958 prices, which are based on the new state wholesale prices, which were reduced on 1 January 1958.

^b The totals include a certain amount of double counting (subsidies to districts and social insurance fund, etc.).

^c Slightly below the budgeted figure.

^d Of which 1.6 billion budget reserve.

^e Of which profits of state industrial enterprises, 8.3 billion.

^f Includes also all receipts from the private sector.

^g Of which 2.8 billion foreign credits.

in accounting practices give similar movements of the main aggregates a different significance from one country to another.

Some of the effects of recent changes in administrative and financial systems in eastern Europe are nevertheless reflected in this year's budgets (see Table 17). The Czechoslovak budget, in particular, is interesting in this connexion since the 1958 estimates and the provisional results for 1957 have been presented in terms of prices in force following the changes in wholesale prices decreed in January 1958. A comparison of the original 1957 estimates with the provisional results stated in terms of the new prices shows marked falls both in "other" expenditure on the national economy (which includes subsidies to state enterprises) and in receipts from profits of state enterprises. This suggests that the effect of the whole-

sale price changes in January must in general have been to bring prices closer to costs throughout the economy.

For Poland, the general inflation of prices in 1957 makes it difficult to draw any conclusions from changes in receipts or expenditure at current prices between 1957 and 1958. In Hungary a fall in subsidies to state enterprises probably reflects not so much increases in selling prices as the estimated results of successful efforts to reduce production costs, and a great reduction is also expected in expenditure on stock accumulation. The very small rise (3 per cent) in turnover tax receipts and profits of state enterprises probably reflects to some extent a fall in trade margins consequent upon the increases in farm prices; but to offset this last factor taxes on peasant farms exceeding 1.7 hectares are to be raised by from 7 to 21 per cent according to the size of farm.

In eastern Germany a large increase in budget receipts from state enterprises, of 13 per cent over the 1957 level, reflects both higher profits attributable to the virtual wage stop and a substantial planned fall in stocks, reversing a rise of DM 700 million in 1957. A manifestation of this year's "austerity" policy on the expenditure side of the budget is the small rise in outlays for "social consumption" (by only 1½ per cent, as compared with 17 per cent in 1957 when old age pensions were increased).

The 1958 budget in Albania anticipated the price reductions of the end of April, since a 30 per cent rise in retail sales over the 1957 level provides only a 12 per cent increase in turnover tax. The decision to leave a larger share of profits than before in the working capital funds of enterprises and an increase in amortization charges has reduced the expected flow of profits to the state budget. No explanation of the startling growth of "other receipts" has been given. On the expenditure side of the Albanian budget the introduction of family allowances and the extension of social security benefits last year have raised welfare expenditure, but the largest increase is in industrial investment expenditure.

Housing Policies

Within the general re-examination of methods of economic management now taking place, the housing sector has been the subject of far-reaching changes in a number of countries, some of which began to be put into effect already in 1957. Very rapid increases in dwelling construction are generally planned⁶⁴ with the object not only of raising housing standards, but also of overcoming a shortage which everywhere constrains labour mobility. The authorities in several countries seem, as a consequence, to have been devoting increased attention recently, first to the fuller exploiting of local resources in initiative, building capacity and materials and to reducing building costs and, secondly, to new methods of financing housing construction which will increase the direct contribution made by the consumer. There has in fact been some slight change of emphasis towards treating housing a little less as a social service to be provided by the state out of central funds and a little more as an item of consumption to be paid for, at least in part, directly by the consumer. The movement in this direction has not as yet gone very far, however, though some striking new departures in methods of planning and financing housing construction and maintenance have already occurred.

A series of measures in the Soviet Union beginning with the decree of 2 August 1957 have both raised

housing targets very considerably, as reported in the last SURVEY, and carried further the trend towards increasing the share of total construction undertaken and financed by industrial and other enterprises and by individuals. At the same time, the sovnarkhozy have inherited the former house-building activities of the industrial ministries and responsibility for most building enterprises. The resultant reorganization of these enterprises, designed to achieve the most effective organization of local capacities to meet local needs, is taking place concurrently with attempts to improve techniques, to standardize components, etc.

As can be seen from the following figures the share of enterprises and individuals in total housing construction in the current five-year plan period is expected to be very considerable.

Planned Share of State and Individual Housing Construction in the Soviet Union in 1956-1960
(Millions of square metres)

	Dwellings constructed by the State	Dwellings constructed from enterprises' and individuals' own funds ^a
RSFSR	149.0	68.0
Ukrainian SSR	29.5	21.4
Byelorussian SSR . . .	3.9	3.1
Uzbek SSR	3.9	3.0
Kazakh SSR	15.0	7.7
Other republics	13.7	9.8

Source: *Pravda*, 2 August 1957.

^a These funds are supplemented by bank credits.

Enterprises are free to use for dwelling construction up to 70 per cent of the "enterprise funds", welfare funds and various premia, as well as 30 per cent of any excess of profits above the planned level.⁶⁵ Individuals can obtain credits to help finance building on a private or co-operative basis. It has been officially suggested⁶⁶ that part of the rise in personal incomes could appropriately be absorbed in house-building, and the state has put at the disposal of the municipal banks (Tsekombank) considerable credits to supplement individual resources. In the Russian Federal Republic alone, the credits in the current year amount to 877 million roubles, or about twice as much as last year. Priority for these credits is granted to miners, railwaymen, metallurgy and chemical workers. Instructions have also been given to banks to grant credits for the construction of houses on a co-operative basis. In such cases, ownership will be granted to individuals in the constructed blocks.

Within eastern Europe, the handing-over of housing construction and maintenance not only to local

⁶⁴ See the SURVEY for 1957, Chapter I, pp. 21-22, and section 5.

⁶⁵ It has been made clear, however, that the present practice of including costs of new housing in the current costs of production of the enterprise will not be tolerated in the future. (*Finansy SSSR*, No. 9, 1957, p. 5.)

⁶⁶ *Ibid.*

management but also to local financing has gone farthest in eastern Germany. State housing has for some time been administered, though not constructed, by local governments and is expected to account for 40 per cent of all dwelling construction in 1958 (as compared with 60 per cent in 1955). The new law on the financing of state housing construction adopted on 9 January 1958 now enables local governments to create special bodies called "local dwelling administrations" to be entrusted not only with the management of the existing rented dwellings but also with the planning, construction and financing of new dwelling space. The main means of financing future housing construction will be the bonds issued by the local dwelling administrations. These will be twenty-year bonds bearing 4 per cent interest, and they may be subscribed by private individuals, savings banks, insurance institutions and co-operatives. The current interest on the bonds will be a charge on general revenue.

However, local responsibility for raising finance and organizing housing construction does not appear to imply the devolution to local authorities of the right to decide independently on the volume of construction. The quotas of bonds to be issued and the number of new dwellings to be constructed by this means will be subject to central approval, though local authorities have powers to undertake additional construction, and reconstruction and adaptation of existing dwellings, out of other resources at their disposal. These include, *inter alia*, receipts from the sales of publicly owned family houses and from "rent supplements" paid by tenants.

The provision for sale of family houses or apartments at present owned by the housing administrations is an example of a tendency becoming more widespread in eastern Europe and encouraged by the very low ratio of rents to maintenance costs.⁶⁷ Moreover, it is a means of skimming off, other than by direct taxation, part of the purchasing power of people with high incomes. The "rent supplements" as now being applied in eastern Germany seem to have similar characteristics. They take the form of subscriptions (interest free) by tenants towards the capital costs of construction, and will vary both with the cost of building and with the income of the would-be tenant.

In Poland the Government has introduced special savings accounts for people saving to finance house

building. Depositors will receive interest and also priority for allocation of the necessary building materials and permits.

The first steps towards a change in rent policies in Poland have also been taken, with the introduction of increases to be paid by all tenants other than "employees", and by all others having an area surpassing certain stated limits. The limit varies from town to town within a range of seven to ten square metres of dwelling space (excluding bathrooms, kitchens and windowless premises) per person. The increase will thus affect mostly families enjoying at present relatively good housing conditions. Rents for non-employees and for "surplus area" will amount to from 3 to 6 zlotys per square metre.

The Polish Government has also introduced payments of deposits for new flats built by public authorities. These will amount to 80 to 120 zlotys per square metre and will be reimbursed, after deduction of any repair costs, to a tenant who later leaves the apartment. The proceeds from higher rents and from deposits are to be used to finance repairs and maintenance.

A policy of encouraging private savings for housing construction and offering bank credit to supplement private resources has also been introduced in Hungary, where the credits available for this purpose in 1958 will amount to 500 million forints as compared with 400 million forints in 1957. In addition, the National Savings Bank will itself construct 1,350 apartments in Budapest in both 1958 and 1959 for sale to private owners, while building sites which have in the past been allocated free of charge by the state to individual builders of family houses will in future be sold. There, as elsewhere, the state share in total housing construction is being rapidly reduced. Total housing completions are expected to be only 32,000 in 1958, as compared with 50,000 in 1957, reflecting partly an exceptionally high rate of completions in that year and partly an absolute reduction in state housing expenditure in 1958.

In Czechoslovakia, the process of effectively devolving responsibility for public housing construction to local governments has now been virtually completed, with the setting-up of regional associations under the local authorities which operate all building enterprises and building materials production except for those enterprises concentrated on industrial building. There, too, co-operative and private building, assisted by bank credits, provides an increasing share of the total.

⁶⁷ Only about 50 per cent of the proceeds of such sales are at present being handed over to local governments in eastern Germany.

Sources and notes to Table 12 on "Central government current revenue and total expenditure as a percentage of gross national product"

The data which refer to the Central Government only are taken from the national sources indicated, and conform broadly to national accounting definitions. Inter-country comparisons, however, cannot validly be made, because of significant differences in coverage and in definitions also between countries. The main differences are indicated below.

Austria. Erläuterungen zum Bundesfinanzgesetz 1958

Including contributions to and benefits from family allowances and unemployment insurance, the contributions to which are included under total receipts but not under taxes.

Col. 4-5. Total indirect taxes.

Col. 10. Direct civil investment is gross.

Finland. Economic Survey 1956, 1957

Col. 1. Including social security premiums paid by employers.

Col. 5. Excluding receipts from the alcohol monopoly included under (1).

Col. 9. Including children's allowances, old-age pensions and transfers to national pension fund.

France. United Nations Statistical Yearbook 1957 (Communication from the French Ministry of Finance)

Based on data prepared for national income calculations. The special treasury funds, the Autonomous Amortization Fund and the social security funds are excluded.

Col. 4-5. Total indirect taxes (of which turnover taxes represent between 54 and 59 per cent).

Col. 10. Gross capital formation.

Italy. Relazione Generale sulla Situazione Economica del Paese, 1954-1957

Social security contributions and benefits are excluded throughout.

Col. 4-5. Taxes on the movement and the exchange of goods and services, and consumption taxes.

Netherlands. Nota betreffende de toestand van 's Rijks Financien, 1954-1958

Contributions to and payments from social-security funds are excluded.

Col. 2-3. Taxes on income, profits and property.

Col. 4-5. Taxes which affect prices.

Col. 10. Including investment for the Zuiderzee project (net) and in public enterprises (net).

Norway. Economic Survey, 1954-1957

Including contributions to and payments from social insurance, price regulation fund and other state funds.

Col. 2. Including taxes for old-age and war pension insurance.

Col. 9. All contributions to private producers (including capital contributions) are included under subsidies.

Sweden. Direct communication from the Riksräkenskapsverket.

United Kingdom. National Income and Expenditure, 1957; Economic Survey, 1958

Including contributions to and payments from National Insurance funds, the contributions to which are included under total receipts but not under taxes.

Col. 2. Including death duties.

Col. 4-5. Total taxes on expenditure.

Col. 8. Including civil defence, excluding expenditure covered by grants from overseas governments.

THE INTERNATIONAL IMPACT OF THE UNITED STATES RECESSION

1. THE THREE POST-WAR RECESSIONS

The Common and the Differentiating Features

Industrial production in the United States rose little from the end of 1955, following a rapid rise in that year. In the last quarter of 1956 both industrial production and gross private domestic investment reached their maximum, and from the beginning of the fourth quarter of 1957 the fall in industrial production accelerated and gross national product declined.

Table 1 compares the decline which has so far (up to the end of March 1958) taken place in industrial production with developments in the earlier recessions 1948-1949 and 1953-1954.

In extent and duration the present recession thus already somewhat exceeds the two earlier ones, and it has been preceded by a longer period of slowly rising or stagnating output than either of the other two. However, a comparison of the present recession with the two previous ones should not be based primarily upon the extent and the duration of the decline in industrial production so far experienced, but must look rather to the causes and the structures of the three recessions.

By pre-war standards the recessions of 1948-1949 and 1953-1954 were both moderate and short-lived. This has appeared to confirm the opinion that in the post-war period the economy of the United States has become inherently more stable and resistant to

prolonged depression than before the war. This greater stability appears to be due primarily to increased confidence in the intention and ability of the authorities to maintain high levels of output and employment, to higher levels of social and other government expenditure, to the development of price support policies for agriculture, and to the rise in marginal tax rates whereby the impact of a decline in activity on disposable income is moderated.

Though factors such as these may be relied upon to prevent an economic catastrophe of the type of 1929-1932, the question still arises whether other and more special circumstances were instrumental in reversing the two previous economic declines of the post-war period and to what extent such special factors are operating in the present recession.

The three post-war recessions have, in fact, exhibited certain important common features. In each of them a decline in exports appears to have been a contributory factor and changes in inventory accumulation have been important elements, and all three conform to the rule that in general a widespread decline in economic activity does not set in without a preceding restriction of the supply of credit. A tightening of monetary policy, intended to counteract inflationary tendencies, seems to have played a role in the early stages of all three recessions, initiating the reversal of economic expansion.

TABLE I
Decline in industrial production between peak and trough

	1948-1949		Percentage decline	1953-1954		Percentage decline	1956-1958	Percentage decline until 1958 I
	Quarters			Quarters			Peak	
	Peak	Trough		Peak	Trough		Quarter	
Industrial production . . .	1948 III	1949 II	8.4	1953 II	1954 III	9.5	1956 IV	10.9
Manufacturing	1948 III	1949 II	8.1	1953 II	1954 III	9.6	1956 IV	11.0
Durable goods	1948 III	1949 IV	13.9	1953 III	1954 II	13.1	1956 IV	16.2
Non-durable goods	1948 II	1949 II	5.6	1953 II	1954 II	6.4	1956 IV	4.6
Minerals	1948 III	1949 III	8.8	1953 III	1954 III	7.8	1957 I	10.0

Source: Federal Reserve Bulletins.

1953-1954

Whereas in 1948-1949 and in the present recession credit policies were relaxed only after the downturn in activity was a clearly established fact, in 1953-1954 credit was gradually eased from May 1953 — two months before the decline in industrial production began — though after a drastic rise in interest rates in the preceding month. For that reason it may be assumed that if federal orders and expenditure had not been reduced appreciably in 1953 and in 1954, in consequence of the reduced intensity of operations in Korea and the subsequent armistice, total activity would have declined but little in that period. From its maximum in the second quarter of 1954, the gross national product, at an annual rate, declined by slightly less than \$10 billion whereas federal expenditure for goods and services fell by rather more than \$15 billion. In response to both the restriction of credit and smaller government orders, inventory accumulation fell after the second quarter of 1953, and inventories were in fact reduced sharply in the last quarter of 1953 and in the first three quarters of 1954. Final expenditure of the private sector, however, declined only between the third and the fourth quarters of 1954 and by less than \$3 billion; it rose above the third quarter 1953 level in the second quarter of 1954.

Apart from the restriction of credit in late 1952 and early 1953, and the retrenchment of federal orders and expenditure, few factors operated to call forth a decline in activity. After rapid declines in the two preceding years, prices of farm products and industrial raw materials fell more moderately in 1953; and the fall in farm incomes was quite small as compared with the rise in non-agricultural incomes. Prices in most other fields were relatively stable or slowly rising, and the general index of wholesale prices hardly changed. After the steel strike of 1952 inventories, which had declined during the strike, were accumulated rapidly, but total inventory accumulation in the second half of 1952 and the first half of 1953 was little if at all in excess of normal requirements at the average rate of long-term growth of the economy.

It has been suggested that a slowing-down of the rate of expansion of private consumption in early 1953 was a major causal element in the 1953 downturn. The steel strike which ended in July 1952 forced a temporary contraction of private expenditure on consumers' durable goods; and after the resumption of steel production purchases of durable goods rose rapidly in the last quarter of 1952. On the basis of this rise both producers and retailers of durable goods are supposed to have over-estimated sales prospects for 1953, while actual sales increased little over the rate in the last quarter of 1952. Consequently, inventories accumulated — especially at the retail level — in

the first part of 1953, and this unintentional increase in inventory investment led to a decline in orders from retailers to manufacturers.

Apart from the observation that a slowing-down in the rate of growth of consumers' expenditure would be a perfectly normal occurrence when for other reasons expansion slows down, it may be doubted if in fact such a slowing-down was an important influence in the period under discussion. On a half-yearly basis private consumption expenditure rose more from the last half of 1952 to the first half of 1953 than between the first and second halves of 1952. Furthermore, a substantial rise in the ratio of inventories to sales in retail and wholesale trade occurred only in the second half of 1953, whereas manufacturers' new orders declined fairly steeply after June of that year, and even well before the beginning of the year had failed to keep in step with the flow of output and sales. Whereas presumably the restriction of credit was the main causal factor in the early stages of this development (member banks' free reserves were sizably reduced in the second half of 1952 through borrowings at the Federal Reserve), later on the decline in federal orders must have been the dominating element. To judge from the statements made at the time, however, it was not the relative decline in new orders, but rather the sharp deterioration in the condition of the capital market which in May 1953 prompted the Federal Reserve Board to reverse its policy of extreme credit restriction. The subsequent fall in interest rates reflected not only official action to ease credit, but also an already declining demand for credit.

Thus the 1953-1954 recession may be characterized as a temporary and policy-created setback to a fundamentally strong movement of expanding activity in the private sector of the economy. Because the restriction of credit was short-lived, its reversal after May 1953 proved rather effective. New housing starts increased in the final months of 1953, and the volume of work on residential construction rose rapidly early in 1954. Manufacturers' new orders rose from the beginning of 1954; and at the same time — from January 1954 — private consumption expenditure was stimulated through reductions in tax rates which, together with automatic reductions in tax revenues and increasing transfer payments, led to a rise in disposable personal incomes. Expenditure for producers' durable equipment, on the other hand, took more time to recover, and began to rise only in the first half of 1955. In addition, there was a most fortunate interaction between developments in the United States and those in the rest of the world. A number of circumstances acted together to minimize the impact of the United States recession on other countries and on world commodity markets. The

reversal of the 1950/51 increases in the prices of agricultural and other primary goods had already been substantially completed, and such prices were in general little sensitive to the decline in current consumption which was in any case moderate. The 1948-1949 recession, by contrast, was essentially connected with the elimination of early post-war scarcities.

The expansion in western Europe which got under way in 1953, after the recovery from the effects of the post-Korean price fall, tended to strengthen prices of primary goods. An important factor in this development was that—as a result, in small part, of capital flows consequent upon the early relaxation of Federal Reserve policies—the gold and dollar reserves of western Europe and other areas continued to rise in this period and expansion in western Europe and elsewhere was not in general hampered by lack of international liquidity. Though foreign transactions constitute a relatively small element in the United States economy, the rising activity in the western European economies and its impact both on world commodity markets in general and on United States exports in particular must have been a contributory factor moderating the 1953-1954 decline in United States activity.

1948-1949

Whereas in the 1953-1954 recession a factor exogenous to the private sector—the decline in federal expenditure—played a prominent role, the recession of 1948-1949 conformed in some respects more nearly to the traditional pattern of a short business cycle.

The 1948-1949 decline has been characterized as an inventory recession, and with considerable justification. From its peak in the fourth quarter of 1948 to the trough in the fourth quarter of 1949 gross national product at an annual rate declined by \$8.5 billion, inventory accumulation having dropped by \$11.2 billion and final expenditure having risen by \$2.7 billion. In fact, only from the fourth quarter of 1948 to the first quarter of 1949 did the sum total of final expenditure (i.e., gross national product exclusive of inventory accumulation) decline and then by less than \$1 billion at an annual rate. The total of private final expenditure fell, however, for three quarters, from the fourth quarter of 1948 to the third quarter of 1949, by \$2.5 billion at an annual rate, this decline being accounted for entirely by private fixed investment, whereas the fall in private consumption from the last quarter of 1948 to the first quarter of 1949 was regained already in the second quarter of 1949.

A number of factors worked together to cause the 1948-1949 downturn. One rather general and important element was presumably that, through the rapid expansion of civilian production since 1946, the post-

war backlog of accumulated demand for durable consumers' and producers' goods was gradually being reduced. Manufacturers' unfilled orders declined after the first quarter of 1947 and the ratio of unfilled orders to sales fell steadily from early 1946 onwards. More directly indicative of the prospective decline in production was, however, the fact that the inflow of new orders to manufacturers stopped rising in the last quarter of 1947 and began to fall in the summer of 1948. In the case of durable goods there was a fairly clear-cut shift from rising to falling orders in June 1948. Moreover, as the expansion of industrial production was eating into the backlog of demand for manufactured products, an improved supply position on agricultural markets led to a sharp decline in agricultural prices early in 1948. Exports declined appreciably from 1947 to 1948 and imports rose steadily.

Thus, market conditions were changing in such a way as to induce expectations of a reversal of the rising trend of prices. This was quite probably an important factor influencing private fixed investment, which started falling in volume well before manufacturing production. Residential construction reached its maximum in the second quarter of 1948 and other private fixed investment declined after the third quarter, the rise in construction contracts awards having stopped by the end of 1947. The changed price expectations may in part have been the product of tighter credit conditions, which may in addition directly have restricted investment through the decreased availability of finance. Corporate bond yields rose markedly in the last half of 1947, and bank credit for residential construction certainly became more difficult to obtain early in 1948; but again this probably reflected primarily the belief among bankers—well founded, as events proved—that construction costs had become excessive and could not be sustained, rather than a deterioration in the liquidity position of the commercial banks. Short-term interest rates began to rise in 1947 and Federal Reserve discount rates were raised twice in 1948. Further, reserve requirements were increased repeatedly in 1948 and instalment credit restricted in September, contributing presumably to the decline in expenditure on consumers' durable goods in the last quarter of the year. In general, however, the restriction of credit in 1947-1948 was mild even though restrictive Federal Reserve action was reinforced through a large treasury cash surplus in 1948. Throughout this period the excess reserves of member banks remained far above their borrowings at Federal Reserve banks.

Gross national product reached its lowest value for the period in the fourth quarter of 1949. Before that, residential construction had begun to rise in the third quarter and personal consumption expenditures,

in particular for durable goods, had risen already in the second quarter. It would appear that a backlog of demand, still existing at the beginning of 1949 for both automobiles and housing, contributed significantly to the upturn. But this was, in addition, promoted by the adjustment of prices and especially of construction costs, by the relaxation of credit policies, and by the change from a federal cash surplus in 1948 to a cash deficit in 1949 in consequence of both a decline in tax revenues and a rise in expenditure. As the recovery in output proceeded, construction other than residential rose in the last quarter of 1949, and expenditure on producers' durable equipment rose in the second quarter of 1950.

1957-1958

Whereas the 1948-1949 recession was in the nature of a brief adjustment to the disappearance of post-war scarcities in major markets — possibly provoked and to some extent intensified through mildly restrictive credit policies — and the 1953-1954 recession was largely the product of declining federal expenditure, the present recession, on the other hand, appears to exhibit the main characteristics of a typical business downturn. The downturn followed after a long period of rising investment, during which its composition changed towards shorter-term investment with residential construction declining already from the middle of 1955; the fall in the output of durable manufactures occurred earlier and was much steeper than for non-durable manufactures; finally, there was a considerable delay between the start of the decline in industrial production and the end of net inventory accumulation.

Like the two earlier recessions, the present one was preceded by a tightening of credit. But whereas in 1948, as has been mentioned, credit restriction was relatively moderate and in 1953 it was speedily reversed at the first signs of a downturn in activity, the restriction of credit in the present recession was strong and was maintained long after it had become abundantly clear that activity was declining. Indeed, the present recession is a typical example of a downturn called forth through persistent central bank action. The free reserves of Federal Reserve member banks — that is, excess reserves minus borrowings at the central banks — were reduced drastically from the middle of 1954 and became negative from August 1955. After temporary relief in the last part of 1956, bank liquidity was again reduced and maintained at low levels through the major part of 1957. Only in the last quarter of 1957 was remedial action taken, allowing free reserves to become slightly positive at the beginning of 1958. This development was reflected in both short- and long-term market rates, which rose from the middle of 1954 to the late months of 1957. In the three years 1955 to 1957, Federal Reserve

discount rates were raised no less than seven times, the last time — the *coup de grâce* — in August 1957.

Major sectors of the economy were affected at an early stage. As in the two previous recessions, changes in the flow of manufacturers' orders gave early warning of the oncoming decline in activity. The rise in manufacturers' new orders all but stopped after 1955 and the flow began to shrink a year later. Industrial production increased little after 1955 and fell rapidly after September 1957. The steepest declines have occurred in the production of automobiles, steel, machinery, and minerals; but lately the fall in output has become quite widespread, with only a few sectors such as food, beverages and tobacco being so far immune.

Residential construction reached a maximum in the middle of 1955 and has since shown a steady decline, interrupted by some recovery in the second half of last year. New private starts in recent months were, however, below the levels of a year earlier. Other construction on the other hand, after a prolonged rise, declined only this year. Employment — seasonally adjusted — in contract construction has been falling since the middle of last year. Expenditure for producers' durable equipment rose over a two-year period, ending in early 1957, then levelled off and fell in the first quarter of 1958.

The slowing-down of economic expansion which took place after 1955 was not the necessary result of a scarcity of productive resources. Private fixed capital investment has in the post-war period proceeded at a high rate on which the two earlier recessions had only a small and brief impact. Though unemployment fell from 1954 to 1955 it remained in both 1956 and 1957 well above the levels of 1952 and 1953 and left scope for significant further expansions of employment and output. Thus, both the material and human resources were available for the continuation of economic expansion after 1955 and its slowing down, as well as the later decline in activity, must be judged a consequence primarily of the restrictive policies pursued by the monetary authorities. In spite of the margin available for expansion of output, cost-inflation persisted and was a major factor motivating the monetary policies pursued.

But while the expansion of productive capacity through investment creates the possibility for further growth of output, it does at the same time increase the sensitivity of the economy to depressive factors by tending to depress the profitability of further investment. Assuming the economy in 1955 to have operated at close to full capacity levels, subsequent additions to capacity and recent declines in activity may be assumed to have created idle capacity to the extent of some 20 to 25 per cent at the beginning of this year. Industrial production changed little from

the end of 1955 through the third quarter of 1957 while industrial investment proceeded at a high rate. Thus even a resumption of production at the previous maximum levels would hardly have sufficed to call forth a renewed expansion of industrial investment to the levels of 1957 in circumstances in which actual sales, especially in the manufacturing sector, fell considerably short of expectations.

Surveys of investment intentions made in the early part of this year, by the Department of Commerce and by the McGraw Hill Co., point to a reduction in expenditure on plant and equipment in 1958 to about 15 per cent below the level of 1957. These intentions were based on expectations of only moderate declines in sales in 1958. Since in consequence of the very fall in investment actual declines in sales may well exceed those expected, a downward revision of investment intentions would appear highly probable. That such revisions could in the next two years assume dramatic proportions is shown by the McGraw Hill survey.

In 1957 the sum of non-residential private construction and expenditure for producers' durable equipment amounted to almost \$50 billion and in the first quarter of this year the annual rate was about \$47 billion. Assuming a somewhat sharper decline in the manufacturing sector and in most other fields than is foreseen in the recent official and private surveys of investment intentions, but on the other hand some rise in agricultural investments, the annual rate may for the last quarter of 1958 be put at about \$42 billion at the prices ruling at the beginning of the year.

As to residential construction, after the prolonged post-war expansion 1955 may well prove to have been a peak year in a long building cycle. The marriage rate has declined over the last few years, and recently quite strongly — perhaps in consequence of the change

in economic outlook — and only in about five years' time will demographic factors tend to call forth a rise in the marriage rate. In the short run the resumed decline since the middle of last year in the number of housing starts — which fell throughout 1955 and 1956 — does not point to a major revival of residential construction in 1958. It remains to be seen, however, whether the more liberal housing bill recently adopted will succeed in reviving housing activity in the face of falling incomes and the reluctance of consumers, as revealed by the most recent Survey of Consumer Finances and Purchase Plans, to commit themselves to major new expenditure. The annual rate of residential construction in the fourth quarter of 1958 may tentatively be put at \$13 billion against \$14.2 billion in 1957. Total private fixed investment would then come to \$55 billion as against \$64 billion at the end of 1957 — a fall of 14 per cent.

Government purchases of goods and services may by the last quarter of the year have increased to an annual rate of about \$93 billion — an increase of \$5 billion from the first quarter rate and of almost \$7 billion from the 1957 rate. This estimate presupposes no more than the usual rate of increase in state and local expenditure, of about \$3 billion per year, and may well err on the optimistic side regarding the rate of increase which will be achieved for federal expenditure. Though these projections are of course uncertain in the extreme it thus appears rather improbable that by the last quarter of this year the total of private fixed investment and government purchases will have declined more than \$3.5 billion below the annual rate in the second half of 1957.

In neither of the two earlier post-war recessions did quarterly personal consumption expenditure fall by fully 1 per cent from the peak to the trough, and in both cases expenditure resumed its rise after one quarter's fall. In the present recession by the first

TABLE 2
United States gross national product

Billions of dollars — quarterly totals at annual rates (seasonally adjusted)

	1948 Fourth quarter	1949 Fourth quarter	1953 Second quarter	1953 Fourth quarter	1957 Third quarter	1958 First quarter
Gross national product	264.0	255.5	367.4	357.5	440.0	422.0
Personal consumption expenditure	180.1	183.5	231.4	230.2	283.6	281.2
Gross private domestic fixed investment	37.5	35.5	50.4	49.7	63.5	60.8
Change in business inventories	4.9	-6.3	3.1	-5.2	3.0	-9.0
Net foreign investment	1.3	-0.5	-3.0	-1.7	3.2	1.5
Government purchases of goods and services	40.2	43.4	85.5	84.5	86.7	87.5

Sources : 1948-1949: "National Income" (supplement to the *Survey of Current Business*, 1954 edition); 1953: *Business Statistics*, 1957; 1957: *Survey of Current Business*, February 1958; 1958: *Business Statistics*, 16 May 1958.

quarter of this year consumers' expenditure had also fallen by close to 1 per cent below the peak rate in the third quarter of 1957.

In contrast to the 1953-1954 recession, but in conformity with the 1948-1949 pattern, the decline in consumers' expenditure has in this recession so far been appreciably smaller than that in disposable incomes (about two-thirds of the latter decline), the fall in gross incomes having been cushioned in each case by the automatic reduction in tax payments and rise in transfer payments. None the less, as a percentage of disposable income personal savings are still higher than they were in 1948 or in 1949. The prospective fall in other expenditure makes it probable that personal incomes and — in the absence of a substantial reduction of tax rates — consumption expenditure will decline further. However, in view of the automatic adjustments in tax and transfer payments and the margin available for reductions in savings, the total decline could hardly be expected to exceed some \$5-6 billion, or more than twice the percentage fall in the two preceding recessions. Nevertheless, a continuing fall in consumers' expenditure over the rest of the year is rather probable. The 1958 Survey of Consumer Finances and Purchase Plans shows that, though a large part of the consumers questioned expected a worsening of general economic conditions and planned a relatively low rate of purchases of automobiles and other durable goods, only one out of nine expected his own income to decrease. In view of the subsequently continued and spreading fall in activity, the income expectations of consumers may well be disappointed, leading to some downward revision of expenditure plans.

Even assuming some further fall in net foreign investment, the extent of the decline in total domestic final expenditure might well then amount to about \$10 billion. Such a decline in final expenditure would most probably be accompanied by an inventory disinvestment not in excess of some \$5-6 billion; and since inventories had by the end of March 1958 been reduced by almost \$3 billion it may be assumed that inventory decumulation will have come to an end by the fourth quarter of 1958. The decline in GNP from its highest rate would then amount to slightly more than 3 per cent and its level would not differ significantly from that which obtained in the first quarter of this year. Since, however, it is probable that both the decrease in inventory decumulation and the major part of the rise in federal expenditure will occur in the second half of the year it may well be that activity will continue to fall in the coming months followed by a feeble recovery in the autumn. Such a development would probably imply a level of industrial production about 10 per cent below that of the first three quarters of last year.

The restrictive credit policies which have been partly responsible for the present recession, as for its two predecessors, were imposed with the aim of counteracting inflationary tendencies. But whereas in 1948 the main element in such tendencies was demand pressures in commodity markets, in 1952 and even more this time rising money wages were the main factor. Because the present recession has had a severe impact on the output of steel and automobiles — two industries whose trade unions play a dominating role in wage developments — it is to be expected that the tendency for wages to rise will be very much weakened. The rise in food prices in the United States may be reversed later this year in consequence of increasing supplies of livestock products, and markets for industrial materials will presumably remain weak. It is therefore quite probable that Federal Reserve policies will prove to have been successful in the sense that prices of consumers' goods will be lower by late 1958 than they were twelve months earlier even though in the process economic welfare will have been adversely affected in a large part of the western world.

The mere knowledge of a change in economic conditions in the United States will affect business sentiment in other countries and in western Europe especially. Apart from this, a fall in economic activity in the United States may propagate itself to western Europe in three principal ways, all of which are, of course, interconnected: firstly through a change in the volumes of imports and exports — primarily a decline in United States imports both from western Europe and from other countries, whose own import capacity is thus affected in turn; secondly through a decline in prices on international commodity markets; and, thirdly, through a decline in the net flow of capital from the United States.

The relative importance and the sequence in time of these factors have shown no uniformity in the various past recessions. The big depression of the inter-war period was — like the present recession, though on a considerably larger scale — preceded by a period of weakening world markets for major commodities. On the other hand, in 1948-1949 as in 1937-1938 a reversal of price increases coincided fairly closely in time with the fall in activity in the United States, whereas prices remained remarkably stable in 1953-1954.

From 1928 to 1929 the export of United States private capital declined, well before the fall in domestic activity, as the combined result of the Wall Street boom and restrictive Federal Reserve policies; and this was an important factor increasing the sensitivity of the international economy to the contraction in the United States. In the present recession the export of United States private capital fell only after

the middle of 1957, when the decline in domestic activity was slowly under way. In the brief downturns of 1937-1938 and 1948-1949 changes in the flow of United States private capital played a less important role, and in 1953-1954 they exhibited a contra-cyclical behaviour.

Fluctuations in United States imports have in general been closely synchronized in time with changes

in domestic output; and this has been true in the present recession also, since the rise in total imports almost stopped when manufacturing production levelled off after the end of 1955. However, imports continued at a high level for one quarter after industrial production had started to decline rapidly in the autumn of 1957, and fell only in the early part of the present year.

2. RECESSION BEHAVIOUR OF UNITED STATES IMPORTS AND PROSPECTS FOR 1958/59

Imports in Relation to Output

United States manufacturing production would appear to be the most suitable of any single reference series which could be chosen to indicate economic activity as a determinant of the level of United States imports. It can be seen from Chart I and Table 3 that changes in manufacturing production have in general been associated with movements in the same direction in total merchandise imports.

Crude and semi-manufactured non-food materials and finished manufactures are the categories of imports which follow most closely the fluctuations of manufacturing output. Imports of food, both crude and manufactured, contrast sharply with these commodity groups in that they have been little affected by the post-war recessions in the United States, which have not been sufficiently deep or prolonged to cause a reduction in consumers' expenditure on foods. The fall in crude food imports in 1954 was entirely due to the reduction in imports of coffee and cocoa following the sharp increase in prices early that year. If these two commodities, which account for four-fifths of imports in this group, are excluded, the volume of crude food imports is found to have risen slightly. Imports of manufactured foods are dominated by sugar, which accounts for 40 per cent of the total in this group. The demand for sugar in the United States is little affected by changes in economic activity, and the quota system applied to imports of sugar further contributes to their stability. It is thus not to be expected that imports of food will be affected to any great extent by the present decline in activity. However, the coffee market has weakened considerably over the last year, and the dollar value of United States coffee imports in 1958 will therefore probably be smaller than in 1957. The price factor may prove of importance also for other foodstuffs.

The volume of imports of finished manufactures has shown a strongly rising trend over the last ten years. None the less, these imports suffered an absolute decline during both the 1949 and the 1954 recession. Both in 1948-1949 and in 1953-1954 import values of textile manufactures fell more than did machinery imports; and the United States wholesale

price index for finished textile goods declined in both periods while prices of machinery and transport equipment tended to increase or to remain stable. Further, the upward trend of imports during the post-war years is considerably more pronounced for machinery than for textile goods. In view of this, it would appear that the impact of post-war recessions on United States imports of finished manufactures may not have been more pronounced for textile goods than for machinery and vehicles. Whereas imports of machinery generally tended to rise in the two previous recessions, imports of motor vehicles dropped by more than half in 1948-1949 and by only a little over 10 per cent in 1953-1954, and in the present recession they continued to rise substantially in the first quarter of 1958. Thus, the recession behaviour of the imports of motor vehicles would appear to have changed, and the rise in these imports may well continue during the remainder of this year.

TABLE 3

Manufacturing production and the volume of imports

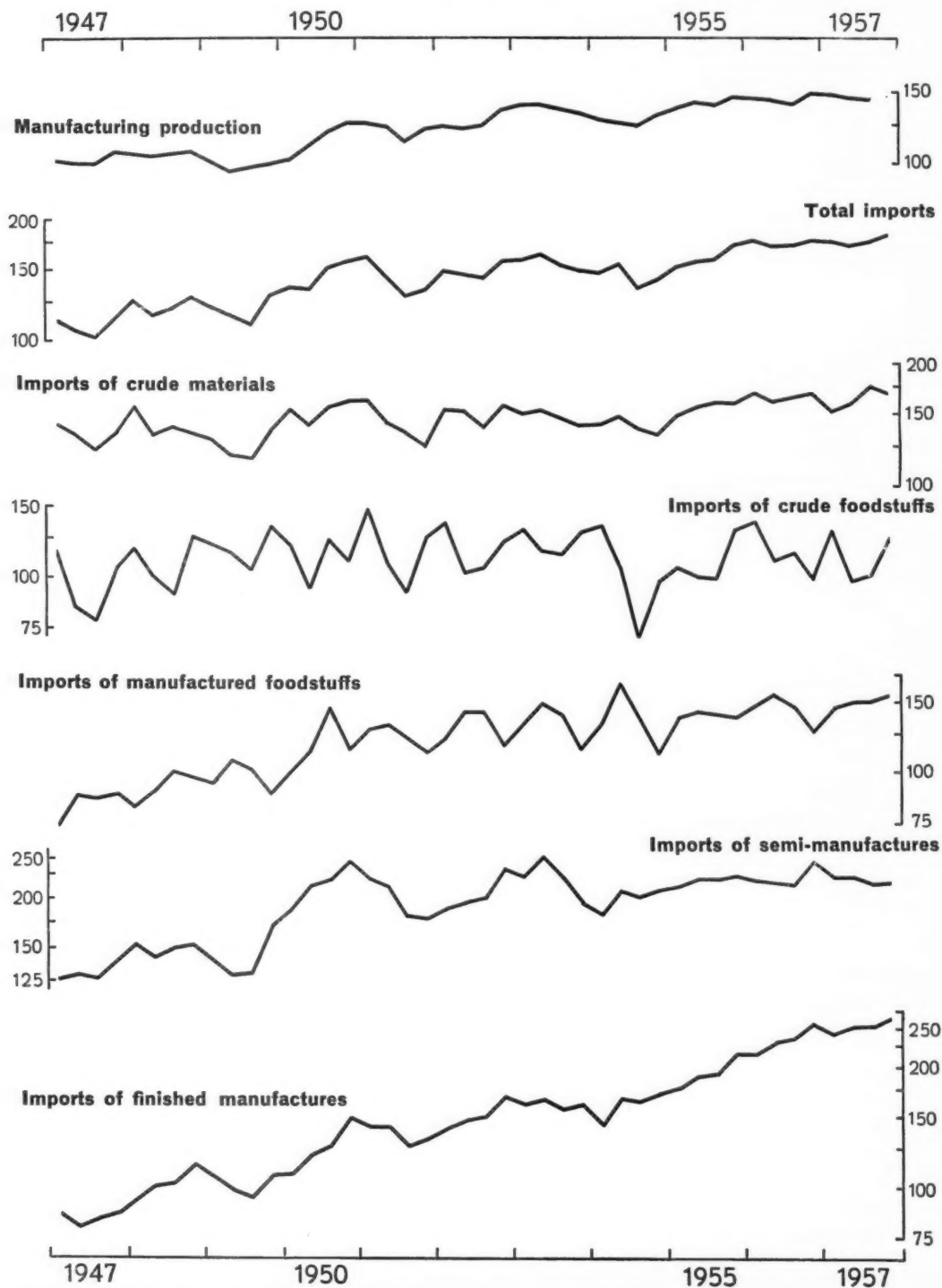
Percentage changes from corresponding period of preceding year ^a

	1949	Oct. 1953- Sept. 1954	Imports in 1956 (\$ billion)
Manufacturing production .	-5.8	-7.1	
Total imports	-2.2	-8.2	12.5
Crude non-food materials .	-10.7	-6.4	3.1
Crude foods	8.9	-8.8	2.0
Manufactured foods . . .	5.5	2.3	1.2
Semi-manufactures . . .	-5.0	-16.4	3.0
Finished manufactures . .	-1.2	-2.6	3.2

Sources: *Business Statistics*; *Survey of Current Business*; *World Trade Information Service*, Part 3; *Foreign Commerce Weekly*, United States Department of Commerce.

^a In studying the impact of the 1949 recession it appears desirable to consider the full year 1949, including the fourth quarter, when production and imports were already recovering. A comparison made on the basis of the first three quarters only would exaggerate the impact because of the depressive effect on imports of anticipations of currency devaluations in the summer of 1949. A twelve-month period, starting with the fourth quarter of 1953 when production first showed a decline, also seems to provide the most suitable basis for considering the impact of the 1954 setback.

CHART 1 — United States manufacturing production and volume of imports
Index numbers for manufacturing production, 1947-1949=100 and for imports, 1936-1938=100
Semi-logarithmic scales



Sources : Survey of Current Business, World Trade Information Service and Foreign Commerce Weekly, U.S. Department of Commerce.

Taking into account the rising trend in United States imports of finished manufactures relatively to manufacturing production, their absolute declines in the two previous post-war recessions point to a surprisingly high elasticity — of close to 2 — in relation to manufacturing output. Thus the projected level of manufacturing production in late 1958, some 10 per cent below that of the first part of 1957, should imply a decline in imports of finished manufactures by late 1958 to levels about 10 per cent below those of a year earlier. However, the change in the composition of western Europe's exports of manufactures to the United States, which has accompanied their rapid expansion in recent years, makes it particularly difficult to estimate on the basis of past experience the impact of the present recession on this trade. Imports of manufactures other than automobiles into the United States may to some degree benefit from an increasing importance of price and cost advantages as the economic climate changes in the United States, and a slowing-down of economic activity in western Europe itself may induce exporters to increased sales efforts on the American market.

To arrive at a more precise evaluation of the possible drop in United States imports of crude and semi-manufactured non-food materials during the current recession it is not sufficient to draw on the experiences of the earlier post-war recessions. There are significant differences in the domestic as well as in the international scene between the previous recessions and the present one which must be taken into account.

One major difference lies in the fact that whereas both the 1949 and the 1954 recession constituted relatively brief interruptions in an otherwise high rate of expansion, the present occurred when manufacturing output in the United States had already been stagnant for almost two years. The impact of the earlier recessions was also mitigated by the fact that they were restricted to the United States; both in 1949 and in 1954 economic activity in other industrial countries continued to grow at a high rate, and the volume of total exports from primary producing countries in fact increased during the recession years. However, in 1949 the primary exporting countries suffered a loss in their terms of trade, while in 1954 a restricted group of countries benefited from the "beverage boom". By contrast, economic growth has now started to level off in western Europe and Japan as well as in the United States. Thus the current recession is likely to become more widespread and serious in its effects than the previous two recessions.

Stockpiling and Protective Policies

Another difference from the two earlier recessions consists in the absence so far of certain factors which,

particularly in 1949, tended to offset the reduction in United States industrial demand for imported materials. Between 1948 and 1949 government expenditure for stockpiling increased from \$147 million to \$453 million, part of which was spent on imported materials. Beginning in 1954, the rate of stockpiling was reduced for some materials, but also in that year stockpiling added to the demand for certain others — and for most others in subsequent years. By the middle of 1957 stockpiling was stopped for most of the 76 materials covered by the Stockpile Act, and in 1958 the objectives are being reached for the remainder.¹ However, a new change in stockpiling policies cannot be ruled out. In the examination below of United States imports of crude materials it has not been possible to take this eventuality into account, and stockpiling purchases have consequently been assumed to end this year.

Since the margin between scarcity and surplus on raw material markets is generally narrow, this tapering off of non-commercial demand in conjunction with the slowing down in industrial demand, while supplies continued to increase had drastic repercussions on the prices of non-ferrous metals in 1957 (and on copper prices already in 1956). In addition, accelerated sales of surplus stocks by the Commodity Credit Corporation during recent years have tended to depress world market prices for several agricultural commodities.

The end of stockpiling, apart from its effect on prices, does not necessarily mean a reduction in United States imports, particularly since in the middle of 1957 the Government decided gradually to cancel the purchasing guarantees to domestic producers under the Defence Production Act. If there had been no decline in industrial consumption these two measures might have resulted in the weeding out of high-cost producers and an increase in imports. In fact, domestic mine production of copper, lead and zinc fell in 1957 while imports, particularly of metal, increased. If the comparison is restricted to the second half of the two years there was still an increase in imports of lead and zinc.

The Prospects for Ores and Metals

In this situation the mining industry is pressing for tariff protection. The President has, however, recently proposed an alternative in the form of a guaranteed price for a maximum quantity of mine output. This

¹ During certain years of scarcity—for example in 1955—the United States Government released materials from the stockpile and the United Kingdom Government, after publication of the 1956 Defence White Paper, accelerated sales from strategic stocks. These sales covered a large range of materials (non-ferrous metals, sawnwood, textile fibres) and were scheduled to continue until the middle of 1958.

system would apply to copper, lead, zinc, tungsten and fluorspar. For a quantity that in the case of lead and zinc slightly surpasses mine production in recent years, but for copper is almost 10 per cent lower than 1957 mine output,² producers would be guaranteed a price that is higher than present quotations but lower than that ruling a year ago. Thus the entire adjustment to reduced industrial demand of these metals would be carried by imports. On the assumptions that the system is adopted, that consumption of these metals will remain at present levels for the rest of the year, that smelters' stocks are reduced³ and that the guaranteed prices will bring forth a production to the maximum level, imports during the coming year may fall by anything between one-quarter and one-third of the 1957 rate.

United States imports of tin (metal plus concentrates) have fallen continuously since 1952/53, largely owing to the tapering-off of stockpiling, whereas in 1949 increased government purchases raised total imports. In 1957, tin consumption, which had increased only little in 1956, fell by almost 10 per cent — a decline which has continued in 1958. Although demand from the tinplate industry is expected to be well maintained, a reduction in consumption to something like the low levels of 1949 and 1952 (or by some 10-15 per cent below the 1957 level) seems compatible with the assumed level of industrial activity during the coming year. On the assumption of no releases from the strategic stockpile, this would mean a reduction of imports also by 10 to 15 per cent.

Tin differs from the metals discussed above in that the price has been relatively stable since 1953, and also in that world output dropped in 1957. This is due to the existence of the International Tin Council, which has supported the price level both through buffer stock operations and by curtailment of exports from member countries. Exports have now been cut so deeply that prices are expected to be maintained or even raised in spite of increasing exports from the Soviet Union and China.

The reversal of United States stockpiling policies came relatively late in the case of nickel. There was hardly any change in imports during the second half of 1957, whereas both in 1949 and in 1954 they had continued to increase, and the price, which had resisted these recessions, rose further in 1957. Early in 1958 the Government diverted certain quantities from the stockpile and was released from its obligation

to buy nickel from the Canadian company according to the 1953 contract⁴ during the first nine months of 1958. Though Canadian output has been cut by 20 per cent, stocks continue to pile up. While the price of new nickel has so far remained firm, scrap is sold at a discount of about 16 per cent.

In 1957 world production of aluminium fell for the first time in the post-war period, entirely because of lower consumption and production in the United States.⁵ Lower prices of competing non-ferrous metals plus increasing exports from the Soviet Union induced the big producers to undertake the first post-war price-reduction on 1 April 1958. United States imports of aluminium are marginal and have shown wide fluctuations, so that a further reduction in consumption together with increasing domestic capacity may therefore cause imports to fall appreciably in 1958. As Table 4 shows, the fall between the second half of 1956 and the second half of 1957 has already been of the same dimension as in the earlier recessions.

It may also be expected that United States imports of chromite and manganese — both closely related to the output of steel, predominantly imported and in past years subject to large-scale stockpiling — may fall substantially in 1958. In the metal group, imports of two materials have in post-war recessions been unaffected — iron ore and bauxite — whereas steel imports seem to have been largely influenced by scarcities due to strikes. Imports of bauxite increased rapidly in 1957 despite the drop in aluminium output, and it may be expected that also in 1958 domestic bauxite will take the burden of adjustment to any further decline in aluminium production. Since, however, imports account for fully three-fourths of total requirements they are bound to be affected by any major reduction in aluminium production.

All ores and metals accounted in 1956 and 1957 for about 15 per cent of total United States imports. It may be estimated that in 1958 imports will fall by about 15 to 20 per cent, the last figure applying to the import value.

Agricultural Products

The position of crude and semi-finished materials of agricultural or forestry origin in United States imports has been relatively weak during the post-war period. Not only have imports of rubber, wool, jute and hides exhibited a falling trend, but these imports have in addition been relatively much affected by the recessions, as have also sawnwood and wood-

² The copper tariff of 2 cents per lb, suspended since 1951, is, however, scheduled to be reimposed on 1 July.

³ Very likely imports of lead and zinc ores were maintained on a high level early in 1958 in expectation of a tariff increase, and stocks increased. Consumers' stocks, on the other hand, are low.

⁴ According to this contract General Services Administration would buy from INCO about 1500 tons a month.

⁵ Capacity increased further, however, and reached about 1.7 million tons by the end of 1957. It has been estimated that the strategic stockpile in 1957 absorbed about 150,000 tons of aluminium. (*Metal*, Berlin, April 1958.)

TABLE 4
United States imports of selected commodities

Q = Quantity V = Value

Commodity	PERCENTAGE CHANGE FROM CORRESPONDING PERIOD OF PREVIOUS YEAR						VALUE (Millions of current dollars)	
	1949		Oct. 1953 - Sept. 1954		July- December 1957		1956	1957
	Q	V	Q	V	Q	V		
Wool	-42	-28	-40	-35	-12	-9	242	211
Burlap . . . . .	..	-19	..	-18	..	-9	100	98
Hides . . . . .	..	-30	..	-28	..	-15	66	49
Rubber	-10	-22	-13	-31	..	+ 3	398	350
Sawnwood	-16	-26	..	-6	-11	-18	306	243
Wood-pulp	-23	-33	-9	-9	-8	-8	298	274
Aluminium	-24	-17	-16	-14	-20	-18	111	113
Chromite	-22	-27	-15	-11	-1	+4	49	55
Total of above . . . . .	..	-26	..	-21	..	-9	1 570	1 393
Copper (ores and metal)	+20	+11	-20	-29	-5	-32	442	322
of which: Metal	+5	-3	-27	-35	-10	-36	383	276
Lead (ores and metal)	+29	+18	..	-8	+22	+6	135	151
of which: Metal	+1	-9	-47	-51	+26	+7	83	89
Zinc (ores and metal)	+3	+13	+28	-1	+18	+2	118	153
of which: Metal	+26	+15	-40	-45	-24	-40	65	64
Tin (ores and metal)	+17	+57	-19	-37	-22	-29	178	130
of which: Metal	+23	+30	-17	-33	-16	-18	146	130
Nickel (ores and metal)	-1	+16	+8	+14	-1	+2	158	162
of which: Metal	+3	+16	+6	+14	-5	+1	154	157
Steel	+83	+90	-45	-58	-59	-49	99	96
Manganese ores	-4	+15	-5	-15	+5	+29	71	100
Manganese alloys	-34	-22	-20	-31	+35	+40	30	62
Newsprint	+6	+6	-1	..	-9	-7	688	657
Total of above . . . . .	..	+17	..	-17	..	-12	1 919	1 833
Crude petroleum	+20	+19	..	+8	+16	+22	829	983
Petroleum products . . . . .	..	+3	..	+10	..	+23	440	564
Iron ores	+21	+35	+29	+16	+12	+13	250	285
Bauxite	+8	+4	+23	+24	+40	+41	48	62
Total of above . . . . .	..	+15	..	+10	..	+21	1 567	1 894
Cocoa	+13	-36	-15	+35	-2	+25	145	135
Coffee	+4	+14	-7	+7	+8	-2	1 438	1 383
Tea	+4	+2	+14	+36	-2	-12	51	51
Sugar	+17	+19	+2	..	+6	+9	437	458
Oilseeds and oils . . . . .	..	-33	..	-15	..	+13	108	115
of which: Copra	-4	-37	+3	+1	+8	+13	42	41
Total of above . . . . .	..	+1	..	+7	..	+2	2 179	2 142
TOTAL OF ALL COMMODITIES LISTED . . . . .	..	-3	..	-7	..	..	7 235	7 262

Source : Quarterly Summary of Foreign Commerce, United States Department of Commerce.

pulp. These materials, with the exception of rubber, already reacted to the slowing-down in United States activity during the second half of 1957.

Imports of natural rubber, in both 1956 and 1957, were below the level of 1955 and did not decline further during the second half of 1957. During the two earlier recessions United States consumption of

synthetic rubber fell more than that of natural rubber. This was due to a fall in the price of natural in relation to that of synthetic, in its turn due in 1948-1949 primarily to increased supplies reinforced by speculation on a sterling devaluation, and in 1953 and 1954 to the gradual end of stockpiling. In 1957, however, consumption of natural rubber fell moderately,

whereas that of synthetic continued to increase, and so far the price of natural rubber has remained well above that of synthetic. That the natural rubber price has not declined further is due to a stagnation in world output since 1950, to large Soviet purchases at the end of 1957 and early 1958, and finally to continued high consumption in countries outside the United States, which now account for a far greater share of total world demand than during the earlier recessions. If the price of the natural product now falls below that of the synthetic, which may occur as the result of increased supplies from Indonesia, of reduced Soviet purchases or of a reduction in consumption in other countries, the decline in United States consumption will have its main impact on the synthetic product. If, however, the price of natural rubber is maintained or the producers of synthetic rubber adjust their prices to those of natural rubber, then the volume of imports will fall. Thus, whether through a decline in quantities or through lower prices the dollar proceeds of exports to the United States of natural rubber may be expected to fall considerably — perhaps by as much as 20 per cent.

Similarly, United States demand for wool is dependent on its price in relation to those of synthetic materials, in this case rayon staple fibre and, increasingly, the true synthetic fibres: nylon, etc. Consumption of wool improved both in 1955 and 1956, when wool prices tended to fall while prices of competing materials continued to increase. In the 1956/57 season, wool prices rose significantly, and consumption as well as imports declined in 1957, while rayon staple production, which had fallen in 1956, recovered in the following year. The deepening of the recession towards the end of 1957 and in 1958 and its spreading to the textiles industries in other countries, notably Japan, started a price fall in the 1957/58 season. This time rayon prices were also reduced and, in the early months of 1958, the United States wool consumption and rayon staple production both fell about 20 per cent below the average 1957 level. As in the case of natural rubber it is therefore less likely than in the earlier two recessions that the position of the natural product will be improved through a reduction in its relative price *vis-à-vis* that of competing materials. If no major improvement occurs in the United States textiles industry during 1958 wool imports are therefore likely to decline further from the already low 1957 level.

In the case of jute and burlap, harvest results in the main jute-growing countries have influenced United States imports, via the ratio of jute prices to those of competing materials. Owing to a short harvest in 1956/57, prices started to increase towards the end of 1956, and United States imports, which overwhelmingly consist of burlap, fell in 1957. The

reduction in economic activity during 1958 will, however, hardly allow a recovery in United States imports, despite the fact that prices have tended to fall since the end of 1957.

While the agricultural materials discussed above are largely supplied by certain sterling-area countries, United States imports of forestry products — sawnwood, wood-pulp and newsprint — originate almost wholly in Canada. Imports of sawnwood are largely determined by the rate of building activity and between 1952 and 1955, when new construction showed an upward trend, imports of sawnwood increased in every year. Since 1955 building activity has fallen off, and imports of sawnwood consequently fell in both 1956 and 1957. The prospects for imports in 1958 thus depend on whether recent measures to encourage house-building will have any noticeable effects this year. Since stocks have remained high, any new demand will presumably initially be absorbed by a stock reduction.

The sensitivity of imports of wood-pulp to changes in demand has been high in all post-war recessions. While United States consumption fell by little over 5 per cent in 1949, imports fell by 23 per cent, and in 1954 consumption continued to increase while imports fell by almost 10 per cent. Particularly since 1953 the production capacity of the United States wood-pulp industry, as well as of the newsprint industries, has expanded rapidly. The drop in consumption in 1957 resulted in a considerable increase in manufacturers' stocks, and in the absence of any decisive upturn in demand for paper of all sorts there is little likelihood that imports of pulp will remain even at the reduced level of the second half of 1957. The relatively small United States wood-pulp imports from Europe consist largely of dissolving pulp for the rayon industry, and are therefore likely to feel the impact of the textile recession. Perhaps more important for Europe is the probability that the slowing-down in domestic consumption will induce United States producers to seek a growing outlet on export markets in competition with European exporters.

The different behaviour of United States imports of newsprint during the three recessions is due first to the fact that whereas in 1949 consumption increased while domestic production rose only little, in 1954 consumption remained at the 1953 level and during the current recession it has tended to fall. Moreover, domestic production, both recently and in 1954, increased through the coming into use of new capacity planned during the period of world-wide scarcity in 1950-1952.

Petroleum

Petroleum imports also have exhibited a changing behaviour in each of the post-war recessions. In 1949

TABLE 5
United States imports in 1956

Millions of current dollars

Commodity groups ^a	Sources	World	Western Europe	Canada	Central America	South America	Overseas sterling area	Dependent overseas territories of western Europe ^b	Other
Total		12 490	2 809	2 837	1 133	2 465	1 182	487	1 577
Food, drink and tobacco		3 288	401	315	814	1 173	207	108	270
Non-food materials		6 264	785	2 074	242	1 236	836	369	722
of which :									
Basic metals and rubber		2 487	436	587	137	443	449	91	344
Wood, pulp and paper		1 414	120	1 232	13	4	10	6	29
Hides, skins and textile fibres		605	108	33	20	116	191	4	133
Fuels		1 278	2	128	43	614	127	236	128
Chemicals		374	145	126	30	31	10	3	29
Manufactures		2 269	1 432	245	27	10	116	6	433
Other		295	46	77	20	15	13	1	123 ^c

Source : OEEC Statistical Bulletin, Series IV, July 1957.

^a Coverage according to SITC as follows:

Food, drink and tobacco	Sections 0, 1, Div. 92
Non-food materials	Sections 2, 3, 4, Div. 64, 68
Basic metals and rubber	Div. 23, 28, 68
Wood, pulp and paper	Div. 24, 25, 64
Hides, skins and textile fibres	Div. 21, 26
Fuels	Section 3
Chemicals	Section 5
Manufactures	Sections 7, 8, Div. 61-63, 65-67, 69
Others	Div. 93

^b Excluding members of the sterling area, included in previous column.

^c Largely unallocated imports.

the fall in United States consumption of petroleum products affected exclusively domestic output, while imports of both crude and refined products increased significantly. In the case of refined products, this appears to have been due to a decline in import prices contrasted with a greater stability of domestic prices. In the 1953-1954 recession consumption fell only little, but, as in 1949, the decline was entirely felt by domestic output, whereas imports of crude remained stable and of products increased slightly. Now, on the other hand, imports are likely to be as much affected as domestic production by the fall in consumption. As late as the second half of 1957 imports continued to increase, but in 1958 the big companies have restricted both imports and production by about 10 per cent.

The Over-all Fall in Imports and the Impact on Exporting Countries

Summing up the foregoing discussion of the prospects for United States imports in late 1958, it can be stated that imports of crude and manufactured food-stuffs may show a certain increase in volume terms; but, largely through the effect of lower coffee prices, there may occur a decline in the value of these imports as compared with 1957. Experience indicates a very high sensitivity of imports of finished manufactures to changes in manufacturing output; and the decline

may be put at up to 10 per cent, due allowance having been made for the expected increase in motor-car imports from Europe. The detailed examination above of the prospects for non-food crude and semi-finished materials suggests a reduction in imports of ores and metals by 15 per cent below the 1957 level, and in value terms probably by more, despite the greater stability of bauxite and iron-ore imports. Imports of crude materials of agricultural origin might fall slightly less in volume terms, but, since prices are extremely sensitive to a falling off in demand, the dollar outlays are likely to fall as much as for metals. Experience has shown that United States imports of forestry products are very sensitive to fluctuations in economic activity, and in this sector also an appreciable reduction in 1958 imports may be expected. Imports of petroleum and products may on the other hand fall only moderately.

The reduction in total United States imports below the previous year's level will on these hypotheses reach 10 to 15 per cent in 1958, the higher figure relating to the value. The reduction in imports may thus become more pronounced, both in volume and in value terms, than in the 1953-1954 recession, and in volume terms very much greater than in the 1948-1949 recession. Moreover, it should not be forgotten that during the second half of 1957 the export proceeds of primary producing countries were already tending to

fall as a result of declining prices. Since prices of manufactures continued to increase there occurred a deterioration in the terms of trade of these countries that is expected to continue through 1958.

The impact of the decline in imports on the main supplying areas is also likely to exhibit important differences from the situation during the earlier recessions.

Exports to the United States

Percentage changes in values from the corresponding period of the previous year

	Year 1949	October 1953- September 1954	July- December 1957
Western Europe	-16.0	-10.6	+2.2
Overseas sterling area	-15.5	-12.7	+16.0
Non-sterling dependent over- seas territories	-5.4	+19.3	-1.3
Latin America	-4.8	-7.3	+6.8
Canada	-2.8	-5.3	-0.2
Other	-5.9	-7.3	+10.1
TOTAL	-9.0	-7.4	+4.4

Both in 1949 and in 1954 the overseas sterling area, and in particular Oceania, suffered the greatest losses in dollar earnings and were followed by western Europe, while imports from the American continent, including certain non-sterling dependent overseas territories, were better maintained. This time the value of United States imports from the Latin American republics is likely to fall substantially, owing mainly to an expected decline in the price of coffee and possibly of sugar (neither being closely related to the fall in United States activity) and to a reduction in imports of most non-ferrous ores and metals. The non-sterling dependent overseas territories in Latin America, on the other hand—exporting bauxite, petroleum products and certain foodstuffs—may have better experiences. But Canada is likely to be more affected by the present recession than by the earlier ones: while United States imports of iron ore

may be better maintained, there will occur significant reductions in imports of aluminium, nickel and other non-ferrous metals, forestry products and petroleum, several of which had resisted the earlier post-war recessions.

Imports from the overseas sterling area increased at a high rate during the second half of 1957. This was, however, largely due to the discontinuation of a diversion of petroleum exports from certain sterling countries to Europe during the Suez crisis, and in general a postponement of imports owing to the shortage of shipping and high freight rates during the first half of 1957. But the cocoa-price increase and the accelerated imports of bauxite also boosted the value of imports from sterling countries. The outlook for these imports in 1958 may be expected, on the basis of the foregoing discussion, to be relatively more favourable than during preceding recessions; wool imports fell already in 1957 and even if there is a further drop, this is not likely to be of the magnitude experienced in the earlier recessions. Similarly rubber imports may in value terms fall less than in either 1949 or 1954.

Imports from western Europe may be expected to drop on account of the reduced imports of manufactures. Also imports of metals, including steel, and forestry products from western Europe will be affected. However, the volume of paper and pulp exports to the United States could probably be maintained, but only by substantial price concessions.

Thus, it seems likely that the effects of the present downturn in economic activity on United States imports will be more evenly spread over both commodities and exporting countries than in either 1949 or 1954. Since during the earlier recessions western Europe and the sterling area were the areas most seriously affected, this difference might indicate somewhat better relative prospects for Europe. As will be shown below, this relative improvement is, however, illusory, since in 1957 there had already been pressure on dollar reserves in both areas.

3. PRIVATE CAPITAL EXPORTS FROM THE UNITED STATES

The links connecting international transactions on capital account during the post-war years with those on current account, or with the level of domestic or outside economic activity, are too tenuous to be elaborated in terms of precise causal relationships. Moreover, the inherent statistical limitations, particularly those concerning short-term capital flows, make such an undertaking all the more difficult.

Exports of long-term private capital from the United States fluctuated around an annual average of a billion dollars up to 1955, although they exceeded this level in 1954 and were far below it in 1949 and 1953.

Between 1955 and 1956, however, there was a spectacular rise in capital exports, the level in 1956 being $2\frac{1}{2}$ times that of 1955. This development continued in the first half of 1957; but in the second half of 1957 there was a fall to around half the rate of the first half-year. In contrast to the low level in most of the earlier post-war years, capital exports in 1956 and 1957 were comparable in real terms with the highest rates reached during the 1920s. Most of the increase was accounted for by direct investment, with the changes in other components being relatively minor.

Of particular significance in this connexion was the

TABLE 6

Private capital exports (—) from the United States to the world and to western Europe

Millions of current dollars

Years	Long-term capital net					Short-term capital net	Total long- and short-term capital net
	Direct investment	New issues	Redemptions	Other long-term	Total		
<i>To the world :</i>							
1947	-749	-396	+295	+52	-798	-189	-987
1948	-721	-150	+62	+19	-790	-116	-906
1949	-660	-118	+103	-65	-740	+187	-553
1950	-621	-254	+301	-542	-1 116	-149	-1 265
1951	-528	-491	+113	-59	-965	-103	-1 068
1952	-850	-286	+ 66	+6	-1 064	-94	-1 158
1953	-721	-270	+139	+316	-536	+167	-369
1954	-664	-309	+124	-135	-984	-635	-1 619
1955	-679	-124	+203	-359	-959	-194	-1 153
1956	-1 839	-457	+169	-319	-2 446	-534	-2 980
1957 ^a	-1 973	-516	+146	-393	-2 736	-299	-3 035
<i>To western Europe :</i>							
1947	-46	-18	+12	-100	-152	+34	-118
1948	-64	—	+6	-26	-84	-55	-139
1949	-36	-16	+9	-71	-114	+80	-34
1950	-119	—	+6	-202	-315	-36	-351
1951	-62	—	+12	-47	-97	+60	-37
1952	+8	—	+9	-99	-82	-34	-116
1953	-51	—	+7	+173	+129	-26	+103
1954	-50	—	+12	+26	-12	-240	-252
1955	-129	-29	+16	-24	-166	-25	-191
1956	-456	—	+7	-122	-571	-171	-742
1957 ^a	-233	-25	+22	-34	-270	-84	-354

Source : Survey of Current Business.

^a Provisional.

pronounced rise in the flow of direct investment towards western Europe. Such investment accounted for less than a tenth of total direct investment abroad by the United States in the earlier years, but rose to a fifth in 1955 and to a record share of over a quarter in 1956. Such a marked rise in the importance of western Europe as an area of direct investment by the United States was apparently connected with the high level of economic activity in western Europe, as well as with the expected formation of the Common Market. In 1957, with tighter credit conditions and a weakening of industrial activity not only in the United States but also in western Europe, the flow of direct investment fell to half that of 1956, although it was still more than twice as great as in earlier post-war years.

The flow of direct investment to Latin America and Canada followed a somewhat similar pattern, although the increase from 1956 to 1957 was much greater for Latin America than for Canada, partly reflecting a much higher level of investments in the petroleum sector.

Capital Exports during the Post-war Recessions

The behaviour of private capital exports from the United States showed a marked contrast during each of the two earlier post-war recessions. In 1948–1949, there was a fall by over a third (amounting to an annual rate of some \$350 million) whereas in 1953–1954 there was an increase by three times (amounting to roughly \$1,250 million) over the very low level of the immediate pre-recession year. This divergence was in a large measure due to the different behaviour of short-term flows in each of the two periods. During the first recession, the inflow of short-term capital in 1949 reflected balance-of-payments strains abroad and expectations of western European currency devaluations and was reversed into an outflow of short-term funds after the exchange rate adjustments of September 1949. During the second recession, on the other hand, the behaviour of short-term capital exports was exactly the opposite. The inflow of short-term capital to the United States in early 1953, largely caused by the rise in interest rates in the United States in relation

to elsewhere, was subsequently changed into an outflow when interest rates in the United States fell.

The behaviour of long-term capital, particularly direct investment, was much less erratic than that of short-term capital. Direct American investment in the outside world as a whole fell by about a tenth in both recessions. New issues declined in the first, but rose somewhat in the latter. The movement of "other" long-term capital, however, was different, with an inflow in both of the pre-recession years giving place to an outflow during the recessions.

Direct American investment in western Europe alone fell in both recessions, though much more sharply in the first than in the second, a difference probably to be explained mainly by the expected devaluation of western European currencies in 1949. Direct investments were maintained in Latin America and rose in Canada in the first recession, whereas in the second they fell in Latin America and were maintained in Canada. New Canadian issues fell in both recessions, but an increase in new issues relating to other countries more than offset the Canadian decline during 1948-1949.

It was thus the behaviour of short-term capital and "other" long-term capital which made the pattern of total private capital outflow during 1953-1954 strikingly different from that in the 1948-1949 recession.

Prospects for 1958

Past experience yields only inconclusive evidence on which to project the flow of private United States capital exports in 1958; and certainly the export of private United States capital may in 1956 and early 1957 have achieved levels which would not have been maintained even in the absence of a business downturn. Direct investment formed the bulk of this large

flow both in 1956 and in 1957, and therefore the prospects for the year ahead must depend to a large extent (and in contrast with the 1949 and 1954 situations) on what happens to the level of direct investment. On the basis of past experience one would expect this to fall, and the events of the last half of 1957 lend support to this assumption. The very high level of direct investment in 1956 and 1957 leaves scope for a severe fall.

General business expectations and activity levels in Canada and in Latin America — and hence United States investments in those areas — will be closely geared to developments in the United States. In western Europe the short-term outlook has lately deteriorated, though by no means as drastically as in the United States, and to the economic uncertainties have recently been added political ones. Moreover, though the formation of the European Economic Community will continue to provide scope and inducement for United States direct investment in Europe, the fairly long period contemplated for the establishment of the Common Market probably means that these investment plans are not, in general, regarded as overwhelmingly urgent. The effects of the narrowing of markets and financial resources in consequence of an economic setback both in the United States and western Europe may therefore well cause temporary postponement of some planned investments.

As far as short-term capital movements are concerned, there is very little that can be said definitely at this stage. Broadly speaking, interest rates in western Europe are at present above those in the United States and, in the absence of speculative pressures, the outflow to western Europe may be expected to continue at a moderate rate if the relaxation of monetary policies in the United States is carried further.

4. THE RECESSION BEHAVIOUR OF UNITED STATES EXPORTS

On general grounds one would expect that a contraction of demand in the United States would tend to induce a rise in its exports, though in the later stages of a recession this effect is apt to be more than counterbalanced by the decline in foreign demand as the recession is propagated abroad. However, in both of the earlier post-war recessions the contraction in domestic demand was quite moderate and short-lived and it could therefore not have been expected to — nor did it in fact — exert any major influence upon the course of exports. That the recessions synchronized with rises in exports would appear to have been an unrelated coincidence.

When the 1948-1949 recession began, United States exports had been falling during the preceding year and a half. Exports rose to appreciably higher levels

in the first half of 1949, then dropped steeply and continued their gradual decline well into 1950. The higher level of exports in the first half of 1949 was to a large extent accounted for by cotton, shipments of which had been low throughout 1948, with consequent depletion of stocks in western Europe. Exports of fats and oils also rose substantially. In neither case were changes in United States domestic demand a major factor; nor does the concentration of the temporary export rise on these commodity groups point to any important influence by expectations of exchange-rate adjustments. A principal element in the sharp drop in exports about the middle of 1949 was the decline in grain exports consequent on an improving supply situation abroad.

In 1953-1954 the major part of the rise in exports

was similarly accounted for by fats and oils, cotton and, in addition, chemicals. The rise in exports reflected the improving payments position of other countries, leading to the liberalization of dollar imports by western European countries, rather than the contraction of demand in the United States. Exports rose fairly steadily from late 1952 and continued to rise at an undiminished rate after 1954, when activity in the United States had picked up.

In the present recession also, the development of United States exports has so far been dominated by special factors. Exports—in particular of cotton and other agricultural products and petroleum and products—have declined steeply from their exceptionally high levels in late 1956 and early 1957. On the other hand, exports of finished manufactures were by the beginning of 1958 still well maintained.

Inasmuch as the United States economy has throughout 1957 operated at well below full employment and full capacity levels, it is hardly to be expected that the recent further decline in demand and output will much stimulate exports, although the general easing of credit conditions, supplemented by more

specific measures in the export-credit field, may yield some results. The most important influence tending to reduce exports further will be the already clearly discernible repercussions abroad of the recession. Business conditions in Canada and also in Latin America are paced by those in the United States, while in a number of primary exporting countries in other areas the weakening of United States demand had an early impact. The further slackening of activity in western Europe may also be expected to lead to a continued fall in exports to that area.

Under the impact of special factors, exports sharply declined in relation to imports in the course of 1957. Only from the beginning of 1958 did imports decline. Both exports and imports will almost certainly fall further in the months ahead. If capital exports from the United States remain at their considerably reduced levels or diminish further, and if other countries react strongly to any deterioration in their foreign-exchange position, exports may continue to fall more rapidly than imports. It would nevertheless appear probable that the changes in exports and imports will differ less in 1958 than they did last year.

5. CONCLUSIONS

Since the war the total supply of United States dollars to the outside world has gradually risen from under 20 billion to 26 billion and 27 billion in 1956 and 1957. Whereas in the inter-war period merchandise imports accounted for by far the major part of the dollar supply, their share has in recent years been no more than about one-half. The remaining items on private account—services and private capital—have in recent years supplied about 15 and 12 per cent respectively of the total, and payments on government account the remaining quarter. Of all these components, merchandise imports and private capital—aggregating some three-fifths of the total dollar supply—exhibit the most pronounced sensitivity to changes in economic conditions in the United States and abroad.

According to the estimates made above, United States imports by the end of this year may well have declined by some \$2 billion at an annual rate. While no proper estimate can be made of the decline in private capital exports to be expected, a fall of some \$1 billion is well within the realm of probability. With the remaining categories of dollar supply but little affected, the total dollar supply might thus fall by \$3 billion or more than 10 per cent. It is to be expected that the decline in dollar supplies will automatically—that is, without any intensification of contractionary monetary policies in foreign countries—lead to only a minor reduction in the rate at which dollars are used up by foreign countries. There-

fore, the indicated reduction in the rate of supply of dollars could, if maintained for any length of time, have a very sizable impact on the gold and foreign exchange reserves of foreign countries, amounting in total to some \$30 billion.

The rise in total foreign reserves which had gone on since the middle of 1952 came to a halt towards the end of 1956. During the period both of rise and of subsequent stagnation in reserves, developments differed widely between countries. Western Germany and Venezuela together accounted for about three-quarters of the rise from the end of 1952 to the end of 1957 in the reserves of countries other than the United States. Over the same period, countries other than these three increased their combined reserves by little more than 5 per cent, whereas the value of world trade rose by about 35 per cent. In consequence, the international liquidity position of most countries may be judged to be fairly sensitive to a decline in the supply of dollars from the United States. The fall in international liquidity will presumably have far more serious effects on world activity levels than could be expected in consequence of the mere income effect of the decline in United States purchases of goods and services from the rest of the world. In fact, the cut in dollar supplies brought about by the shrinkage of United States capital exports is primarily of importance only in its effect on the international liquidity of other countries. Already a number of primary exporting

TABLE 7
Supply of dollars from the United States to the world and to western Europe

Millions of current dollars

(Minus sign indicates inflow to the United States)

	Private account				Government account			Total
	Merchan- dise imports	Services and donations	United States private capital	Total	Services etc. ^a	Loans and grants	Total	
<i>To the world :</i>								
1929	4 463	..	836	..	..	—38	..	7 061
1937	3 181	..	321	..	..	—	..	4 812
1947	5 979	2 178	987	9 144	695	8 866	9 561	18 705
1948	7 563	2 384	906	10 853	961	4 918	5 879	16 732
1949	6 879	2 424	553	9 856	990	5 649	6 639	16 495
1950	9 108	2 543	1 265	12 916	936	3 640	4 576	17 492
1951	11 202	2 706	1 068	14 976	1 642	3 191	4 833	19 809
1952	10 838	2 998	1 158	14 994	2 426	2 380	4 806	19 804
1953	10 990	3 242	369	14 601	3 029	2 055	5 084	19 685
1954	10 354	3 310	1 619	15 283	3 039	1 554	4 593	19 876
1955	11 516	3 720	1 153	16 389	3 284	2 167	5 451	21 840
1956	12 791	4 194	2 980	19 965	3 462	2 321	5 783	25 748
1957 ^b	13 264	4 292	3 035	20 591	3 775	2 568	6 343	26 934
I	3 288	923	780	4 991	994	648	1 642	6 633
II	3 338	1 089	1 366	5 793	1 036	692	1 728	7 521
III	3 255	1 306	380	4 941	878	474	1 352	6 293
IV ^b	3 383	974	509	4 866	867	754	1 621	6 487
<i>To western Europe :</i>								
1929 . . . . .	..	..	..	..	..	..	..	..
1937 . . . . .	..	..	..	..	..	..	..	..
1947	987	1 226	118	2 331	212	4 385	4 597	6 928
1948	1 260	1 226	139	2 625	331	3 945	4 276	6 901
1949	1 059	1 159	34	2 252	427	4 511	4 938	7 190
1950	1 484	1 345	351	3 180	289	2 887	3 176	6 356
1951	2 172	1 334	37	3 543	433	2 297	2 730	6 273
1952	2 022	1 464	116	3 602	889	1 563	2 452	6 054
1953	2 278	1 546	—103	3 721	1 327	984	2 311	6 032
1954	2 030	1 599	252	3 881	1 612	816	2 428	6 309
1955	2 399	1 822	191	4 412	1 826	847	2 673	7 085
1956	2 948	2 010	742	5 700	1 901	524	2 425	8 125
1957 ^b	3 087	2 043	354	5 484	2 044	695	2 737	8 223
I	753	419	168	1 340	577	173	750	2 090
II	784	554	185	1 523	591	208	799	2 322
III	730	615	—50	1 295	431	37	468	1 763
IV ^b	820	455	51	1 326	445	277	722	2 048

Source: Survey of Current Business.

^a Including offshore procurement and military expenditure, but excluding delivery of military end-items under military aid.

^b Provisional.

countries, particularly in Asia and Latin America, have in the course of 1957 suffered considerable losses of reserves, and as the decline in the outflow of dollars from the United States proceeds, more and more countries will come to the point where the decline in liquidity induces policy measures to protect reserves. Only if such measures take the form of direct controls or other special interventions designed specifically to

improve the balance of payments with the United States will a tendency towards a cumulative contraction in world trade and payments be averted. If — as appears likely to be the case — the policies adopted are either contractionary monetary policies or non-discriminatory controls, contraction will spread through the international economy. This development is already under way.

The boomerang effect upon United States exports of the decline in its imports (and other transactions giving rise to out-payments) will, of course, very much depend upon the policies adopted by other countries, as well as upon any special arrangements in which the United States might participate to improve the liquidity position of other countries. If the liquidity position of all countries allowed them to ignore the decline in their reserves, then the income and price effects of the fall in United States imports would be the only ones, and other countries might even neutralize these through policies of expansion. The United States foreign balance would then greatly improve, thereby supporting activity levels in the United States.

But — as actual events have already shown — other countries are in general not in a position to pursue such expansion. If they adopt generally restrictive monetary policies, the consequence will be a decline in world production and trade, involving also a cut in United States exports, which will, however, be appreciably smaller, at least in the short run, than the original decline in the supply of dollars — though not necessarily smaller than the fall in United States imports. If, on the other hand, other countries discriminate systematically against the United States by selective restrictions on dollar payments, neither their mutual trade nor activity levels outside the United States need in general diminish. In this case the decline in the use of dollars will approximate to the fall in their supply; and, since United States capital exports will be smaller, the drop in its exports will exceed that of imports, implying a deterioration in United States balance on goods and services. Such a development would involve a reversal of the trend of recent years towards a more liberal system of world trade and payments, and would also tend to deepen the recession in the United States. It would therefore serve the interests of the United States itself to take part in arrangements designed to alleviate the impact of the recession on international liquidity. In the light of the extent to which the recession has been allowed to progress, such arrangements would be needed even if domestic action were to be taken in the near future to raise demand in the United States.

Failing agreement by the United States to steps of this kind, serious consideration should be given to the possibilities and scope for concerted action by the industrialized countries of western Europe to maintain high levels of output and trade in the international

economy outside the United States. No attempt will be made here to discuss this problem beyond a few broad elements.

Considered as an economic unit, western Europe is for several reasons in a relatively favourable position for pursuing expansive policies in the face of a United States recession. Firstly, while western Europe's share of total dollar supplies is about 30 per cent, its share in the relatively stable items, services and payments on government account, is much larger. In 1956-1957 the share of the particularly activity-sensitive items (United States imports and private capital exports) in western Europe's total dollar receipts from the United States was less than 45 per cent, whereas for other countries the share was almost 70 per cent. The total dollar receipts of western Europe may therefore be expected to be relatively better maintained than those of other countries.

Secondly, the exports of western Europe to the United States are in a strongly rising trend, so that even if they are highly sensitive to fluctuations in United States activity the impact on the absolute level of exports is to a considerable extent cushioned.

Thirdly, western Europe has experienced an appreciable improvement in its terms of trade in consequence of the fall in primary goods prices relatively to those of manufactures and thereby obtained a certain margin for economic expansion.

Finally, the combined gold and short-term dollar holdings of western European countries have over the last five years risen by about two-thirds, or by about 12 per cent in relation to their trade. By far the major part of this strong increase is, of course, accounted for by western Germany. And though it is easy enough arithmetically to sum the reserves, the total is not an operational entity. In addition, there exist within western Europe major payments imbalances which do not owe their origin to the United States recession and which would not be removed, or even appreciably diminished, through a general expansion in western Europe.

Thus, if the countries of western Europe want to play a leading role in a renewed expansion of world economic activity, they will need to adopt policy measures which equalize the relative strengths of the major western European currencies; effectively pool the gold and dollar holdings of individual countries through payments arrangements, and co-ordinate national policies of expansion.

Corrigenda to the "Economic Survey of Europe in 1957"

Chapter I

Page 5, Table 4, last column, 5th line: for "0.3", read "0.6". 6th line: for "0.5", read "0.6".

Page 7, Table 6: Delete "(Thousands)" in column "Number of co-operative farms".

Chapter II

Page 13, second column; 7th line: delete sentence beginning "Thereafter" and substitute: "Thereafter, however, as expansion in that country proceeded, the rate of increase of domestic steel consumption outpaced that of production, with the result that the net export surplus of French steel, which had formerly been growing every year, diminished."

Footnote 22, 4th and 5th lines should read: "in western Germany took place in the second half of the 1930s, rather than during the war), and the age structure in the United".

Chapter VI

Page 23, Table 17, footnote h: for "\$25 million", read "\$95 million".

Page 53, Table VI-P, *Bulgaria*: for the sections "Fresh vegetables" and "Fruit", substitute the following figures:

<i>Fresh vegetables</i> (including tomatoes)		1952	14	9	—	8	—	2	33
		1953	7	25	—	12	—	3	47
		1954	17	13	—	14	—	11	55
		1955	11	28	5	11	—	2	57
		1956	18	25	—	15	—	6	64
<i>Fruit</i> (including grapes and berries), fresh and tinned		1952	23	21	54	10	—	3	111
		1953	23	43	47	14	—	4	131
		1954	18	20	46	11	—	4	99
		1955	14	16	31	4	—	3	68
		1956	17	34	63	12	—	8	144

Chapter VII

Page 15, left-hand column, fifth line: add at the end of the sentence "(except in eastern Germany)".

Appendix A

Page A-67, Table XXXVIII, Eastern Germany, sugar beet, 1957 Actual: for "284.0", read "295.2".

Page A-70, Table XLI; *Bulgaria*; 1955, last column: for "69.3", read "78.8". 1956, last column: for "72.7", read "78.5". Figures for 1957 should read: "4.93 0.43 0.98 77.8".

Appendix B

Page 3, 6th line: for "milk equivalent at 25 per cent", read "milk equivalent at a coefficient of 25."

Page 16, sources to Annex Table VI-A, 5th line: for "26.10", read "26.9".

Sources to Annex Table VI-B, 2nd line: for "29.10", read "26.9".

Sources to Table VI-R, 13th line: for "No. 289", read "No. 829". 22nd-25th lines: for "26.10", read "26.9".

SALES AGENTS FOR UNITED NATIONS PUBLICATIONS

ARGENTINA

Editorial Sudamericana S.A., Alsina 500, Buenos Aires.

AUSTRALIA

H. A. Goddard, A.M.P. Bldg., 50 Miller St., North Sydney; and 90 Queens St., Melbourne.
Melbourne University Press, 369/71 Lonsdale Street, Melbourne C.1.

AUSTRIA

Gerald & Co., Graben 31, Wien, 1.
B. Wüllerstorff, Markus Sittikusstrasse 10, Salzburg.

BELGIUM

Agence et Messageries de la Presse S.A., 14-22 rue du Persil, Bruxelles.
W. H. Smith & Son, 71-75, boulevard Adolphe-Max, Bruxelles.

BOLIVIA

Libreria Selecciones, Casilla 972, La Paz.

BRAZIL

Livraria Agir, Rua Mexico 98-B, Caixa Postal 3291, Rio de Janeiro.

BURMA

Curator, Govt. Book Depot, Rangoon.

CAMBODIA

Papeterie-Librairie Xuân Thu, 14, Avenue Bouilloche, Phnom-Penh.

CANADA

Ryerson Press, 299 Queen St. West, Toronto.

CEYLON

Lake House Bookshop, Assoc. Newspapers of Ceylon, P.O. Box 244, Colombo.

CHILE

Editorial del Pacifico, Ahumada 57, Santiago.
Libreria Ivens, Casilla 205, Santiago.

CHINA

The World Book Co., Ltd., 99 Chung King Road, 1st Section, Taipei, Taiwan.
The Commercial Press Ltd., 211 Honan Rd., Shanghai.

COLOMBIA

Libreria América, Medellín.
Libreria Buchholz Galería, Bogotá.
Libreria Nacional Ltda., Barranquilla.

COSTA RICA

Trejos Hermanos, Apartado 1313, San José.

CUBA

La Casa Belga, O'Reilly 455, La Habana.

CZECHOSLOVAKIA

Ceskoslovensky Spisovatel, Národní Trida 9, Praha 1.

DENMARK

Einar Munksgaard, Ltd., Norregade 6, København, K.

DOMINICAN REPUBLIC

Libreria Dominicana, Mercedes 49, Ciudad Trujillo.

ECUADOR

Libreria Científica, Guayaquil and Quito.

EL SALVADOR

Manuel Navas y Cia., 1a. Avenida sur 37, San Salvador.

ETHIOPIA

International Press Agency, P.O. Box 120, Addis Ababa.

FINLAND

Akateeminen Kirjakauppa, 2 Keskuskatu, Helsinki.

FRANCE

Editions A. Pédone, 13, rue Soufflot, Paris V.

GERMANY

R. Eischenschmidt, Kaiserstrasse 49, Frankfurt/Main.
Elwert & Meurer, Hauptstrasse 101, Berlin-Schöneberg.
Alexander Horn, Spiegelgasse 9, Wiesbaden.
W. E. Saorbach, Gereonstrasse 25-29, Köln (22c).

GREECE

Kauffmann Bookshop, 28 Stadion Street, Athens.

GUATEMALA

Sociedad Económica Financiera, 6a Av. 14-33, Guatemala City.

HAITI

Librairie "A la Caravelle", Port-au-Prince.

HONDURAS

Libreria Panamericana, Tegucigalpa.

HONG KONG

The Swindon Book Co., 25 Nathan Road, Kowloon.

ICELAND

Bokaverzlun Sigfusar Eymundssonar H. F., Austurstraeti 18, Reykjavik.

INDIA

Orient Longmans, Calcutta, Bombay, Madras and New Delhi.
Oxford Book & Stationery Co., New Delhi and Calcutta.
P. Varadachary & Co., Madras.

INDONESIA

Pembangunan, Ltd., Gunung Sahari 84, Djakarta.

IRAN

"Guity", 482 Ferdowsi Avenue, Teheran.

IRAQ

Mackenzie's Bookshop, Baghdad.

IRELAND

Stationery Office, Dublin.

ISRAEL

Blumstein's Bookstores Ltd., 35 Allenby Road, Tel-Aviv.

ITALY

Libreria Commissionaria Sansoni, Via Gino Capponi 26, Firenze and Roma.

JAPAN

Maruzen Company, Ltd., 6 Tori-Nichome, Nihonbashi, Tokyo.

JORDAN

Joseph I. Bahaus & Co., Dar-UI-Kutub, Box 66, Amman.

KOREA

Eul-Yoo Publishing Co. Ltd., 5, 2-KA, Chongno, Seoul.

LEBANON

Librairie Universelle, Beyrouth.

LIBERIA

J. Momolu Kamara, Monrovia.

LUXEMBOURG

Librairie J. Schummer, Luxembourg.

MEXICO

Editorial Hermes S.A., Ignacio Maliscal 41, México, D.F.

NETHERLANDS

N.V. Martinus Nijhoff, Lange Voorhout 9, 's-Gravenhage.

NEW ZEALAND

United Nations Association of New Zealand, C.P.O. 1011, Wellington.

NORWAY

Johan Grundt Tanum Forlag, Kr. Augustig. 7A, Oslo.

PAKISTAN

The Pakistan Co-operative Book Society, Dacca, East Pakistan.
Publishers United Ltd., Lahore.
Thomas & Thomas, Karachi, 3.

PANAMA

José Menéndez, Plaza de Arango, Panamá.

PARAGUAY

Agencia de Librerías de Salvador Nizza, Calle Pte. Fruto No. 39-43, Asunción.

PERU

Libreria Internacional del Perú, S.A., Lima and Arequipa.

PHILIPPINES

Alemar's Book Store, 749 Rizal Avenue, Manila.

PORTUGAL

Livraria Rodrigues, 186 Rua Aurea, Lisboa.

SINGAPORE

The City Book Store, Ltd., Collyer Quay.

SPAIN

Libreria Bosch, 11 Ronda Universidad, Barcelona.
Libreria Mundi-Prensa, Lagasca 38, Madrid.

SWEDEN

C. E. Fritze's Kungl. Hovbokhandel A-B, Fredsgatan 2, Stockholm.

SWITZERLAND

Librairie Payot S.A., Lausanne, Genève.
Hans Rounhardt, Kirchgasse 17, Zurich 1.

THAILAND

Pramuan Mit Ltd., 55 Chakrawat Road, Wat Tuk, Bangkok.

TURKEY

Librairie Hachette, 469 Istiklal Caddesi, Beyoglu, Istanbul.

UNION OF SOUTH AFRICA

Van Schaik's Bookstore (Pty.), Ltd., Box 724, Pretoria.

UNITED ARAB REPUBLIC

Librairie "La Renaissance d'Egypte", 9 Sh. Adly Pasha, Cairo.
Librairie Universelle, Damas.

UNITED KINGDOM

H. M. Stationery Office, P.O. Box 569, London, S.E.1.

UNITED STATES OF AMERICA

International Documents Service, Columbia University Press, 2960 Broadway, New York 27, N. Y.

URUGUAY

Representación de Editoriales, Prof. H. D'Elia, Plaza Cagancha 1342-1° Piso, Montevideo.

VENEZUELA

Libreria del Este, Av. Miranda, No. 52, Edif. Gallipán, Caracas.

VIET-NAM

Papeterie-Librairie Xuân Thu, Boite Postale 283, Saigon.

YUGOSLAVIA

Cankarjeva Založba, Ljubljana, Slovenla.
Državno Preduzeće, Jugoslovenska Knjiga, Terazije 27/11, Beograd.
Prosvjeta, 5, Trg. Bratstva i Jedinstva, Zagreb.

[58E2]

Orders and inquiries from countries where sales agents have not yet been appointed may be sent to: Sales and Circulation Section, United Nations, New York, U.S.A.; or Sales Section, United Nations, Palais des Nations, Geneva, Switzerland.

Printed in Switzerland

Price: \$ (U.S.) 0.50; 3/9 stg.; Swiss francs 2.00
(or equivalent in other currencies)

June 1958 — 3,900